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Research Report

The Impact of EU Enlargement on Economic Restructuring in Russia and Future Relations between Russia and the European Union

wiiw Research Report, No. 338

Provided in Cooperation with:

The Vienna Institute for International Economic Studies (wiiw) - Wiener Institut für Internationale Wirtschaftsvergleiche (wiiw)

Suggested Citation: Glinkina, Svetlana Pavlovna; Kulikova, Nataliya Vladimirovna (2007) : The Impact of EU Enlargement on Economic Restructuring in Russia and Future Relations between Russia and the European Union, wiiw Research Report, No. 338, The Vienna Institute for International Economic Studies (wiiw), Vienna

This Version is available at:

<https://hdl.handle.net/10419/204110>

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Forschungsberichte

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The Impact of EU Enlargement on Economic Restructuring in Russia and Future Relations between Russia and the European Union

March 2007

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The present paper was prepared within the Sixth EU Framework Programme project 'Industrial restructuring in the NIS: experience from the new EU Member States' (INDEUNIS, No. 516751).

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Summary

Russia is shown to have every reason to seek special consideration of, as well as express its concerns over, the impact of the European Union's (EU) eastern enlargement. The latter relate, in particular, to the current and expected negative repercussions of the changes in the political and economic situation in Europe. Closer study of crucial EU enlargement issues arising as a result of the new member states (NMS) having shifted to the EU common customs tariffs and preferential systems, their adoption of the EU foreign trade regime and the standardization of cargo transit rules and regulations applicable across the EU-25 as a whole demonstrate the need for a comprehensive approach to EU enlargement. That would make for a better understanding of the multifaceted and controversial impact that enlargement will have on the economic transition and industrial restructuring processes in Russia. As the EU penetrates more deeply into the markets of the countries of Central and Eastern Europe, Russia's share in bilateral and multilateral trade as well as other joint economic activities could be reduced still further.

Russia is trying to promote its own specific vision of European integration based on two pillars: the European Union in the West and Russia-initiated integration models in the East (e.g. a Single Economic Space). By taking that route, Russia could retain its political and economic influence in those post-Soviet European countries, where its strategic interests lie. The EU subscribes to a markedly different approach. In late 2002 it began pursuing its European Neighbourhood Policy (ENP) that was specifically aimed at the eastern neighbours of the enlarged EU. It has demonstrated its growing political and economic engagement with those CIS member states that are now part of the ENP.

The ENP transmits a clear message to Russia; it clearly signals the European Union's specific interests and objectives in Eastern Europe. The policy is quite explicit; it reveals that the EU intends to discuss all issues directly with the countries concerned, while the mediation of Moscow is totally or mostly ignored. As a result, a conflict of interest is becoming increasingly apparent in Eastern Europe, with the EU adhering to its ENP and Russia promoting its integration model. Numerous indicators of the state of relations between Russia and the EU show that however important it may be, economic cooperation is increasingly fraught with ambiguity and competition, which, in the final analysis, can but have a negative impact on the efficiency of that joint relationship.

Keywords: *economic restructuring, trade integration, EU–Russia relations, Russia, EU enlargement*

JEL classification: F14, F15, F59, L60, P52

The impact of EU enlargement on economic restructuring in Russia and future relations between Russia and the European Union

Part 1

Impact of EU enlargement on Russia's economy and its structural features

The European Union (EU) is Russia's main economic partner: cooperation between the two partners has a direct impact on Russia's economy and its restructuring. As an importer of Russian goods and supplier of import goods to the Russian market, the EU accounts for more than 50% of Russia's total foreign trade. Furthermore, the EU is the principal investor of foreign capital in the Russian economy.

Economic relations between Russia and the EU have taken on new features following the accession to the EU of ten states (Poland, Hungary, the Czech Republic, Slovakia, Slovenia, Latvia, Lithuania, Estonia, Cyprus and Malta) on 1 May 2004. The event quite clearly was not simply "a regular accession to the European Union of a group of countries" as stated in *Agenda 2000*, an official EU Commission document.¹ In principle, the very scale of the recent EU enlargement and the specificity of the new entrants had an impact on both the character and consequences of this stage of European integration. The Community took on an entirely new guise while in qualitative terms Russia found itself facing an essentially new partner.

For the first time, the European Union had stepped beyond the limits of the West European region, creating an enormous internal market numbering 457 million consumers. Eight new EU members were countries whose development had been governed for more than half a century by a different, in principle socialist, model of societal structure. Upon enlargement the EU, quite obviously, became less stable and efficient: at least, in terms of the immediate future. The organization can be said to have entered a stage of transformational reform.

The EU eastern enlargement infringes most directly on the interests of the Russian Federation. For a long time, Russia has maintained special political and economic relations with the majority of the new EU member countries, three of which were integrated into the USSR. Their EU membership cannot but affect Russia's cooperation both with them and with 'Greater Europe' as a whole. It thus impacts on the prospects of growth and structural changes in the Russian economy.

¹ Soverovski (1997).

EU leaders have fixed their attention on the positive effects of enlargement for Russia and they continue to insist on the same. Their outlook on Russia's commercial and economic cooperation with the new member states (NMS) is optimistic. In theory, ten more states joining the EU should prove beneficial to Russia owing to: the comparative advantages of economic interaction with a larger common market of 25 member states; the increase in stability and transparency of the conditions governing cooperation with the NMS; the facilitation of Russian companies' activities; and the reduction in their overheads in trade with the NMS partners as a result of national trade rules and customs duties being replaced by a single set of business transaction procedures applied throughout the EU. The positive impact of EU enlargement on Russia also entails the NMS adopting the higher standards applied in the EU regulatory environment, particularly in the sphere of intellectual property rights protection and strict application of EU competition regulations; they should set Russian companies on an equal footing with local companies.

In other words, EU enlargement could improve business conditions for Russian companies in the NMS in a variety of ways. However, in the two years since EU enlargement, many positive expectations about its outcome have yet to come true. Building on opportunities offered by EU enlargement entails improvement of market mechanisms, financial investments and political will in Russia; that will take a lot of time. Thus, Russia's economy will only be able to witness the benefits of EU enlargement over the long term. The more immediate consequences, however, will have a predominately mixed effect. Although a series of issues of concern to Russia were solved in the course of four months' protracted consultations with the EU prior to enlargement, many of them have since evolved into serious trade and economic problems – and seen in broader terms, into serious historical and geopolitical problems as well.

The previous, albeit on occasion insufficiently complete, individual *legal bases* of Russia's relations with the NMS were replaced by the more perfect Partnership and Cooperation Agreement (PCA) between Russia and the EU signed in 1994, i.e. at a time when both contracting parties cherished great hopes and illusions about the prospects of their relationship. However, according to estimates by the noted Russian scholar I. Ivanov, nearly half of the PCA articles no longer work today. The automatic extension of PCA norms to all new members of the European Union has led to a legal vacuum where cooperation in a number of fields is concerned; this has led to negative consequences for both Russian enterprises and their partners in the NMS, who revoked their bilateral trade agreements with Russia on the eve of the EU enlargement. In some cases revocation pertained to those articles in the agreements that really fell within the scope of the EU; in other cases, however, it applied to all agreements, including those matters that did not fall within the competence of the EU (for example, agreements on the activities of bilateral economic cooperation bodies or the status of trade missions).

Adoption by the NMS of the *Community Common Customs Tariff (CCT)* impacts on Russia's exports to those countries in different ways. The current average CCT rate for industrial goods is lower than the average level of national tariffs in the ten NMS immediately prior to their joining the EU (3.7% and about 9%, respectively). Moreover, the number of goods subject to the EU customs preferences system has increased; this means that the customs burden has dropped still lower. However, those facts can hardly be taken as evidence of enlargement having generated additional incentives for Russian exports to the NMS. The decrease in the overall level of tariff protection in the NMS was mostly due to the reduction in customs duties on machinery, equipment and finished industrial products, which account for less than 10% of Russia's exports.

At the same time, the EU customs duties on a number of important traditional Russian exports goods are now higher than they were in the NMS prior to their joining the EU. This applies, in particular, to natural gas (0% and 0.7%, respectively), aluminium and its alloys (0% and 6%, respectively), fuel elements for nuclear power stations (0% and 2.6%, respectively), mineral fertilizers and a number of other chemical products, wood boards and certain kinds of foodstuffs, as well as military equipment, comparatively large amounts of which Russia formerly supplied free of charge to the NMS. The shift to the EU customs duties has led to an increase in the import prices of certain listed products.²

Given the current structure of Russia's exports, the benefits accruing from a decrease in the average level of tariff protection in the NMS are minimal. In the case of each NMS, the effect of adopting the CCT depends on the prior level of national customs duties³ and the structure of Russian exports to the country in question. For instance, in the case of Poland, which levied the highest tariffs on products imported from Russia, it turned out to be positive. As for trade with the Czech Republic and Hungary, the Russian component suffered inevitable net losses.⁴

NMS adoption of the various EU systems of preferences affects Russia's economy in different ways. For instance, Russia benefited from the NMS applying the *tariff preferences in trade* that the EU granted Russia in accordance with the PCA. However, the benefit is not large since for Russia the preferences apply mainly to finished industrial products. In addition, the scope for applying these preferences has been gradually contracting; they now apply to only about half of the CCT items. At the same time, the fact that the NMS have applied a much broader EU system of preferences to a number of regional trading

² It should be mentioned, however, that the CCT limits set for natural gas are not in force for the time being.

³ For example, in 2001 the average rate of customs duties on industrial goods amounted to 4.6 % in the Czech Republic, 7.1% in Hungary, 7.1% in Slovakia, 8.1% in Slovenia, 9.9% in Poland, 10.1% in Bulgaria and 15.6% in Romania. See Regular Reports by the European Commission, 13 November 2001.

⁴ Kulikova (2002), p. 56; Butorina and Borko (2006), p. 303.

partners and developing countries has posed a kind of challenge to Russia. The point is that preferences within the framework of those systems have been extended to cover 80-95% of all products, including low-level processed goods. This means, of course, that in terms of their NMS markets, the competitive position of Russian exporters of such items as metals, chemicals, building materials and semi-finished products has deteriorated.

Transition to the EU foreign trade regime, the greater part of which is free of *quantitative restrictions* on Russian exports, has obliged the NMS to waive all quotas and any other non-tariff protection measures applied to Russian imports. As a result, opportunities for increasing the exports of a number of Russian products opened up (coal and calcium carbide to Poland, textiles to Hungary, welded tubes and pipes to the Czech Republic and ammonium nitrate to several countries). At the same time, the NMS had to apply the restrictions provided under EU trade law which, though few, are very painful for Russia. Only after lengthy debates with the EU was it agreed to maintain (up until such time as the previously signed agreements expired) the volume of supplies of rolled steel and nuclear fuel for nuclear power stations that in the past Russia had traditionally supplied in unlimited quantities to the East European market.

The unification of *conditions governing the transit* of goods through the territory of all the EU member states as envisaged in agreements between Russia and the EU meant that the whole set of different national terms and conditions that the NMS applied to Russian goods before they joined the EU was replaced by a single set EU transit rules. The conditions became more predictable; however, most transport tariffs rose considerably, except those for the transit of energy products, in particular natural gas.

It should be mentioned that the changes in the conditions of trade after the NMS joined the EU have not led to a sharp reduction in Russia's share on their markets. This, for example, was unlike the situation after the accession of Finland, Sweden and Austria to the EU which resulted in a reorientation of trade flows that culminated in a relative decrease in Russian exports to those countries. It should be noted that NMS foreign trade underwent drastic geographical restructuring at an earlier stage in the 1990s. It would thus seem that EU enlargement cannot inflict any appreciable damage on Russia's trade with the NMS as the 'reserves' for redirecting trade flows are limited.

The political and economic changes that occurred in the countries of Central and Eastern Europe (CEECs)⁵ and Russia in the late 1980s and early 1990s had a most unfavourable impact on their trade and economic relations. It would be wrong to link this phenomenon

⁵ Only those countries which joined the EU in 2004 (Hungary, Poland, Slovakia, Slovenia, the Czech Republic and three Baltic countries: Latvia, Lithuania and Estonia) and those countries joining the EU in 2007 (Bulgaria and Romania) have been taken into consideration.

exclusively to the cessation of Comecon activities. The basic causes for the rupture were more profound processes of systemic transformation and foreign policy reorientation, including foreign economic policy in both the CEECs and Russia. From that time on, the main foreign policy objective of the CEECs was EU accession, while their foreign economic policy priority was the development of trade and economic cooperation with the EU, while distancing themselves from Russia. According to A.S.Tsipko, the noted Russian political scientist, when socialism and the Soviet Union collapsed, Russia, in its turn, lost interest in Eastern Europe. The Russian political elite's minds were set on the West.⁶ This led to several Russian economic branches losing their lead in East European markets, while the CEECs lost their positions on the Russian market.

The most significant factors of change in the markets of Eastern Europe were those of adapting functioning mechanisms to EU rules and setting up organizational and legal bases for closer economic ties between the CEECs within the common economic space.

From the very first years of transformation, opening the common European market to the CEECs and granting them customs preferences was accompanied by rapid growth in their trade with the EU – to the detriment of other regions. In the period 1991-2004, trade between the CEECs and the EU increased by a factor of more than 10 compared to a growth factor of 3.7 for CEEC overall trade, whereas the import and export growth rates and the volume of CEEC trade with the EU were almost identical. In 2004 the share of the EU-15 in overall foreign trade amounted to 58%, that of CEEC exports to 65% (see Appendix 1, Tables A1, A2).

Foreign direct investment (FDI), about 80% of which came from EU countries, was the major contributory factor to the development of trade in the CEECs, the transformation of their market structure and its integration into the European market system. The flow of West European capital into the CEECs and the acquisition of their most promising economic sectors has been backed by the major banks and international financial institutions. It has also been facilitated by the introduction of EU norms and standards, thus ensuring the primacy of European companies over the investment markets in the NMS and counties' seeking entry into the EU.

In the CEECs foreign investors came to the fore through joint ventures, participation in privatization schemes, the establishment of branches and subsidiary companies, as well as greenfield investment projects. Basically, most major transnational corporations have chosen the more advanced CEECs as sites for their operational facilities in the region.

⁶ Tsipko (2002), p. 13.

The investors' interest has gradually shifted from labour-intensive industries to technologically more complex sectors, thus providing for productivity growth and competitive production. In Hungary foreign investors have developed the automobile industry, high-tech electric engineering and manufacture of electronic equipment (such as office appliances and telecommunications equipment); in the Czech Republic, they turned to the production of energy, the manufacture of aircraft equipment and motor vehicles. In Poland foreign investors played an important role in reconstructing enterprises in traditional branches that cater to the demands of the domestic market, such as motor vehicles for the transport of persons or goods, foodstuffs, tobacco, chemical industries and paper mills; the largest export-oriented sector being the automobile industry. In Slovakia foreign capital ensured the upgrading of the energy sector and the development of the automotive industry in the form of three large-scale assembly plants. The latter are becoming the centre of a trans-border cluster comprising 13 automotive plants and 10 enterprises producing rolling stock.

Foreign investors adapted CEEC manufacturing to world market requirements and ensured the enterprises access to foreign sales networks, thus setting up the basis for structural shifts in foreign trade (Appendix 1, Figures A1, A2). By far the largest segment of export production (in countries such as Hungary, almost the whole of the sector) is manufactured in foreign-owned enterprises. The main export growth is to be found in the manufacture of motor vehicles for the transport of persons or goods, electric equipment and optical devices.

Exports of engineering products are on the increase. In Hungary, Poland, Slovakia, Slovenia and the Czech Republic, their share in exports is compatible with their share in import. This reflects the new quality of trade and the closer production ties with Western partners. Metal products occupy a prominent position in CEEC exports. Supplies of consumer goods to the West, particularly from Bulgaria, Romania, Poland, have grown significantly. At the same time, those countries' supplies of agricultural products have been halved. The changes in CEEC production structures and exports as a result of demand on the West European market have determined those countries' new position in the international division of labour.

Economic relations between the CEECs and Russia are characterized by different trends. In the period 1993-2004 Russia's trade with the CEECs grew by a factor of 2.4; Russian exports doubled; imports also increased by a factor of 2.4 (Tables A1, A2).

Russia's presence on the East European market is incompatible with that of EU. In terms of trade volume with the CEECs in 2004, Russia lagged behind the EU by a factor of close on 14. Russian investments did not exceed 1.5% of all FDI effected in the CEECs; hence,

Russian investors failed to play a significant role in economic development and market formation in the CEECs.

Where Russia's trade with the CEECs was concerned, the initial period of the latter's associate membership in the EU was most dramatic. In 1993 alone, the volume of trade contracted by 20%; CEEC exports were almost halved. In the period 1991 -1995, Russia's share in foreign trade with the CEECs dropped from 16% to 7%, and the corresponding CEEC share in foreign trade with Russia slumped from 40% to 12%. The gradual restoration of ties that started later was interrupted by the financial crisis in 1998 in Russia: in 1999 alone Russian imports from the CEECs dropped by half.

The trade dynamics between Russia and the CEECs remained relatively slack in the following years even though the Russian economy had recovered from the crisis and was beginning to develop steadily once more. Whereas in the period 2001-2004 the overall volume of trade in the CEECs doubled, their trade with Russia grew by a factor of 1.2. Russia's share in CEEC foreign trade continued to decline; in 2005 it amounted to only 4.2% (Tables A1, A3). The corresponding share of the CEECs in Russian foreign trade fell to 8%. All this bears out the statement that the trade dynamic was determined not only by economic growth rates, '... the causes of degradation of economic links between Russia and the CEE countries are deeper, they are rooted in the restructuring of the East European market proper and its 'acquisition' in the process of European economic integration ...'.⁷

Instability, marked imbalances and asymmetrical trade structures have become typical features of Russia's trade with the CEECs. In 2005 the CEECs could only offset 28% of their imports from Russia by their exports to Russia. Russia's trade surplus amounted to USD 19.3 billion (56% of Russia's trade volume and 72% of its export volume). Only certain countries (such as Poland, Hungary and the Czech Republic) have managed to reduce their trade deficits over recent years; in the region as a whole, the rate of import-export coverage increased (in 2000 it amounted to only 16%).

Fuel and energy account for the major (and constantly increasing) share of Russian exports to the CEECs (as well as for a similarly large share in overall trade between the CEECs and Russia) (Figure A3). The share of energy in Russian deliveries increased from 75% in 2000 to 85% in 2004 on account of rising energy prices and the larger volume of Russian oil exports (up from 42.7 million tons to 49.4 million tons). The demand for Russian fuel is attributable to the growing economic demands in the CEECs; the EU requirements governing the level of oil and oil product reserves in the EU candidate

⁷ Glinkina (2002), pp. 350-351.

countries; and the acquisition by Russian companies of oil- and gas-consuming enterprises in the CEECs.

A trade structure based predominantly on unprocessed commodities can hardly constitute a healthy foundation for the development of cooperation. Moreover, a trade imbalance with Russia, rising energy prices and EU recommendations (discussed below) are compelling the CEECs to limit their imports from the Russian Federation. As a result, the CEEC markets for Russian oil and gas exports are becoming significant; the CEEC share in Russian oil deliveries (excluding the CIS countries) dropped from 32% in 2002 to 23% in 2004 and gas deliveries from 34% to 28%. The latter deliveries even contracted in physical terms; in 2000 they amounted to 43.3 billion m³, in 2004 40.9 billion m³.

Meanwhile, after slumping to minimal levels in the 1990s, the deliveries of Russian processed goods to the CEECs continued to drop steadily. In 2002 Russian non-energy exports to the CEECs accounted for almost USD 3.3 billion: 1.6 times greater in terms of volume than CEEC exports to Russia. In 2004 that figure dropped to USD 2.5 billion, corresponding in terms of volume to less than half of the CEEC exports that had increased by a factor of 2.8 over the same period.

The almost total switch of the CEECs to the West European market in terms of trade in engineering products was particularly painful for Russia. In 2004 the share of engineering products in Russian exports to the CEECs accounted for only 2.8% compared to 8.4% in 2000 and 10% in 1995. Of the overall volume of engineering products purchased by the CEECs, Russia accounted for only 1.3% in 2004 (Figure A3).⁸

The shift of priorities in CEEC foreign economic policy was accompanied by both a reorientation of trade flows and a disruption of scientific-technical and production cooperation with Russia. Western partners started to shape CEEC structural and technology policies.

Under the new conditions Russia found it difficult to increase its exports of capital goods to the CEECs. Deliveries of capital goods from the Russian Federation to the CEECs are insignificant, whereas they account for nearly one third of the total volume of CEEC imports from the EU (Figure A2).

Products of the Russian military-industrial complex have been almost totally displaced from the CEEC market (excluding the delivery of military equipment in recent years to pay off

⁸ BIKI 2003, No. 115; authors' calculations.

the debts of the former USSR). The fact that the CEECs have shifted to military-technical cooperation with NATO countries has played a key role in this respect.

Where CEEC exports to Russia are concerned, consumer goods have assumed considerable importance. In 2004, more than 23% of the deliveries (in terms of volume) were engineering products, a quarter of which were motor cars and other vehicles (Figure A4).

Thus, both the reduction in volume and the restrictions on trade structures point to a rupture having occurred in economic relations between Russia and the CEECs.

Today, the opportunities for establishing more dynamic ties are open to both Russia and the CEECs. The stimulating impact of the European integration process on NMS economic growth was to all intents and purposes exhausted during the pre-accession stage. The NMS, whose dependence on the unified European market is even stronger than that of the 'old' member states, joined the EU at a time when economic growth was decelerating; this impacted negatively on the economy of the 'new' Europeans. With an unfavourable economic situation prevailing on the markets of Western Europe, the greatest losses were experienced by those countries whose production was particularly dependent on deliveries to the EU market.

After shifting their foreign economic ties from East to West, the CEECs faced some hardships; their acute psychological antipathy towards Russia as a partner that had prevailed in the 1990s began to cede to a pragmatic approach towards mutual cooperation.⁹ The shift was enhanced by the sustainable economic growth that started in the Russian Federation (over the period 2001 – 2005, its average annual growth rate rose to 5.8%) which was matched by growing market demand. Russian foreign economic policy can be seen to have turned towards more active cooperation with the CEECs. After assessing, in real terms, the level of competitiveness in the NMS and the capacity of the EU to absorb their economies,¹⁰ Russia's interest in developing mutual economic relations with the NMS is presumably also growing.

⁹ For example, G. Gilyán, Secretary of State in the Hungarian Ministry of Economy and Transport, responsible for links with eastern markets, declared at a meeting with Hungarian businessmen on 4 November 2004 that the CIS countries, primarily Russia, could be the second pillar in the country's foreign economic relations, the first being the European Union (*Világgazdaság*, 5 November 2004).

¹⁰ According to estimates of the Hungarian Ecostat, the country's accession to the EU yielded a beneficial effect on only a tenth of the local enterprises, the healthiest and most competitive ones that were able to exploit the advantages of the European common market. After facing a new competitive situation on the domestic market, all the others began gradually to give up. (*HVG*, 7 May 2005, p. 97.)

In recent years the accelerated growth in trade between Russia and the CEECs has taken shape: in 2005 alone it grew by 30%, including a growth in Russian exports of 31% and imports of 25%. The prerequisites for maintaining this trend are evident.

Under the influence of their Western partners, new points of growth have emerged in the CEECs, particularly in the NMS, many of whose enterprises have adopted Western standards and production norms. The result has been a higher level of competitiveness among industrial goods: Czech electric appliances, (Škoda) cars and telecommunication systems; Polish household appliances; Hungarian electrical equipment and devices, vehicles and spare parts; Polish and Romanian light industry products; pharmaceutical products from Hungary, Bulgaria, and Slovenia. All of them are sold successfully on the world market.

CEE companies have joined forces in opening up Russian natural resources, refurbishing and developing fuel and energy complexes. For example, in cooperation with Czech enterprises, a gas processing plant was rebuilt in the Republic of Komi, and a pipeline for gas is being laid in Kamchatka. MOL, a Hungarian company, has entered into a joint venture with YUKOS to develop oil fields in Western Siberia.

In the mechanical engineering sector, developing and implementing joint projects has also started. Czech companies have been undertaking reconstruction work at the Uralmash plant in Yekaterinburg since 2001; since 2005 they have also been engaged in the large-scale modernization of Uralvagonzavod in Nizhni Tagil. The largest Slovak investment project in Russia is a joint enterprise Matador-Omskmashina for the manufacture of tyres; a Russo-Bulgarian enterprise in Belgorod produces motor-driven and electric-powered loaders. A number of projects launched by Polish and Hungarian automobile producers have allowed them to start joint deliveries to Russia of car engines and electrical equipment.

For its part, Russia can supply the CEECs with modern capital goods, services, licenses and know-how; its potential for developing joint projects in the field of nuclear energy, oil and gas industry, as well as for setting up the transport infrastructure, on the eastern borders of the EU is high. The planned development of the nuclear energy sector in Poland, the Czech Republic and Slovakia leads the Russian nuclear energy experts to expect that they can count on participating in those projects.¹¹

Oil and gas transportation and processing systems, as well as metallurgy, have become strategic sectors for promoting the investment of Russian capital in the CEECs. The largest

¹¹ Glinkina and Orlik (2005), Vol. 2, p. 83.

investor in the CEECs is Gazprom, a closed joint-stock company: it invested USD 1.5 billion into laying the Yamal-Western Europa gas pipeline and USD 1 billion in Slovakia (inter alia, for the acquisition of the SPP gas transportation company).

One cannot but note with regret, however, that many opportunities for developing cooperation have been lost: the niches on the Russian market, formerly occupied by CEEC exporters in the 1990s have been won by new suppliers. Russian firms found it much easier to penetrate the NMS markets prior to the latter's accession to the EU than it is today.

After the CEECs joined the EU, the *competitiveness of Russian companies* decreased as the free movement of goods, services and capital within the EU reinforced the strong positions that Western European firms held on the NMS markets. Today, with Russia acting mainly as a supplier of fuel and raw materials in its relations with the NMS, this problem is not being given the attention it deserves. In the future, however, it may well become a serious obstacle to correcting the lop-sided structure of Russia's exports and switching to different mode of trade relations with the NMS, based on the specialization of production and exchange of high-tech industrial products.

Russia's exports are jeopardized by the NMS applying EU *anti-dumping measures*. Before joining the Union, the NMS hardly ever resorted to anti-dumping measures (an exception being Poland) for want of (or weakness) of a national legal basis, as well as on account of the high cost of complying with anti-dumping procedures. After EU enlargement, the anti-dumping measures in force were also extended to the NMS. Furthermore, the number of anti-dumping measures might well increase following complaints by the NMS. There is no guarantee, however, that the cause for complaints will be genuine: for instance, they might be motivated by the simple desire to reduce their trade deficits with Russia.

The shift in the NMS to high EU *technical standards* and rigid *sanitary, phytosanitary, environmental protection standards* will pose formidable barriers to Russian exports to those countries, as will the application of complicated and expensive certification procedures in respect of imported Russian goods. Both Russia and the EU have clearly endeavoured to harmonize, to a certain extent, their standards with ISO standards; however, significant differences remain. 'Euroharmonization' of standards throughout the NMS may result in many Russian engineering products being refused access to their markets, thus complicating Russian electricity supplies, impacting on cooperation in the nuclear energy sector and hampering agricultural exports.

This is already happening, for example, in the nuclear energy sector. Nuclear power stations built in earlier times in the CEECs and Baltic countries using Russian technology are now liable to closure or upgrading under EU rules; this means that Russia will lose its

markets for nuclear equipment, nuclear fuel and collateral services. When Russia exports electric energy to the EU, it has to comply with some twenty different transportation and distribution standards. The variances in the standards systems hamper Russian, when submitting tenders in EU countries, particularly when bidding for construction contracts.¹²

Taking into account the predominance of fuel in Russia's exports to the NMS, possible implementation of the EU *energy policy* by the latter incurs a special risk for Russia. That policy includes the recommendation that 'in order to ensure energy security', energy supplies should be diversified. In the case of nuclear fuel products, the share of one source is restricted to 25% and in the case of other energy products to 30%. Furthermore, by 2030 the EU plans to have replaced 20% of its consumption of pipeline gas by liquefied gas: a commodity that Russia does not supply to Europe. Since Russia currently meets up to 90% of the CEEC requirements in terms of fuel elements for nuclear power stations and up to 75% of their demand for other energy products, all these measures will greatly limit Russia's share in the local markets.

Obviously, if the NMS were to carry out (even partially) the EU recommendations, it would severely injure Russia's economy. The losses will not only be direct, but also collateral: a in reduction delivery volume will lead to the lower utilization of production capacities and reduced efficiency of oil and gas pipelines, especially if they shift to settlement schemes based on EU transit tariffs. For the time being, however, until the current long-term agreements on Russian energy supplies to the EU expire, the problem of Russian energy exports to the CEECs does not feature on the agenda;¹³ later, however, it will be a real threat.

In line with EU recommendations, Hungary and the Czech Republic have already substituted French sources of supply for part of the nuclear fuel previously supplied by Russia. The CEECs are tending to limit the import of fossil energy wherever possible (as shown above, Russian gas deliveries have already decreased); moreover, steps are being taken to set up an infrastructure that will permit a switch to alternative suppliers. New oil terminals in Poland; extended oil pipelines linking Germany, the Czech Republic, Hungary and Slovakia; a projected gas pipeline running through Turkey, Bulgaria, Romania, Hungary and Austria that will feed into Western gas pipelines: all this will, in principle, secure considerable deliveries of oil and gas for the CEECs while bypassing Russia.¹⁴ One

¹² Ivanov (2006).

¹³ The Protocol to the Partnership and Cooperation Agreement (PCA) signed by Russia and the EU in April 2004, fully extending the agreement to the NMS, recognized the effective contracts for deliveries of Russian nuclear materials to NMS and long-term contracts for deliveries of Russian natural gas to the EU market, and stated that the EU would not apply any restrictions on the import of fossil fuels and electricity.

¹⁴ Kulikova (2002), *Tribuna economică* (2002), No. 51-52, p. 12.

cannot exclude the possibility of the EU providing funds and technical support, thus lending a new impulse to the realization of a number of transit projects circumventing Russia that the NMS could not have implemented on their own accord.

Russian foreign economic policy has to recognize the growing dependence of its fuel and energy export on Russia's relations with the CEECs. While they will ensure 'energy security' on account of a reduced Russian share in their markets, it is across their territory that 75-80% of Russia's oil and natural gas passes en route to Western Europe.¹⁵ It is no coincidence that proposals and projects have emerged for changing the routes and means of transporting Russian energy.

CEEC accession to the EU *Common agricultural policy* (CAP) will have a doubly negative impact on Russia's economy. First, the expected modernization of agro-industrial complexes in the CEECs at the expense of the EU and using structural funds subsidies that benefit the EU agricultural producers may well increase the inflow of cheap foodstuffs to Russia's market to the detriment of Russian producers. Secondly, the pronounced protectionism of the EU common agricultural policy will restrict openings for Russia's agricultural exports to the NMS. The import prices for Russian products will rise in keeping with import duties up to the level of intra-EU prices; this will deprive the Russian producers of their competitive advantage on NMS markets. Non-tariff market protection instruments will induce cut-backs in certain Russian supplies. Furthermore, the EU agricultural export regime is quite variable and unpredictable. In summer 2002 Russian exporters of grain came to feel it; in spring 2004 the exporters of chocolate. Overall possible damage as a consequence of deterioration in the conditions for Russia's agricultural exports will not be as great as in other industries; however, given their low and unstable profitability, the agro-industrial complexes will feel it rather sharply.

The negative impact of CEEC accession to the EU on the development of *modern forms of economic cooperation* might turn out to be no less serious than those in the traditional exchange of goods. This relates primarily to Russian companies involved in joint investment projects, establishing joint ventures and cooperating in the manufacturing industry, as well as locating the production of goods and services on NMS territory. Modern global practices testify to the fact that stable economic cooperation is, as a rule, based on joint ownership. Russia's opportunities to take part in privatization, investment projects and start-ups in the NMS and candidate countries on non-discriminatory basis are, however, limited. The competition regulations applied in the EU provide certain advantages to partners from the member states; this may permanently deprive Russian businesses of the opportunity to expand in the NMS.

¹⁵ Glinkina and Orlik (2005); Russian Statistical Yearbook (2005); BP Statistical Review of World Energy (2005).

Western companies are even engaged in upgrading metallurgy and energy plants previously built with the technical assistance of the USSR. Russian companies will only be able to cooperate in branches that were previously areas of traditional Russian technical assistance, if they cooperate with Western companies. Atomenergoexport, a joint-stock company established by Siemens of Germany and Framatome of France to modernize the Bulgarian Kozloduy nuclear power station, is a case in point. However, for the most part such examples are exceptions; they are not signs of a new trend.¹⁶

Undoubtedly, another negative impact of EU enlargement on cooperation between Russia and the CEECs is the *Schengen visa regime*. The European Commission demanded that the candidate countries apply the regime to Russian nationals one or two years prior to EU accession. As a result, the 'security' of the West European core of the Union is guaranteed to the full, while the interests of Russia and its citizens, as well as objective interests of the CEECs are practically ignored. It cannot be doubted that the visa regime will impact negatively on the development of mutual relations – not only in terms of business relations, but also in terms of cultural, scientific and other ties – unless practical steps are taken to change matters.

Quantitative estimates of the consequences that EU enlargement bears for the Russian economy vary widely. Representatives of the Russian ministries argue that the potential damage can be evaluated as being in the order of tens or hundreds of millions of dollars a year. However much the estimates may differ, the damage will undoubtedly be far less than the losses Russia suffered on the CEEC markets back in the 1990s.

Meanwhile, the negative consequences of EU enlargement for Russia are not limited to the country's trade with the NMS. The list of fourteen concerns that the Russians presented to the European Union prior to enlargement failed to enumerate a series of strategically important issues. For example, in that list *the Kaliningrad problem* is, to all intents and purposes, reduced to a transit issue – an obvious simplification.

With both Poland and Lithuania integrated into the EU, the Kaliningrad region has become a Russian enclave within the common European space. EU experts argue that its bordering on a united Europe committed to the principle of free trade will yield appreciable trade and economic advantages to the region, including greater access to European markets. The trade-off between gains and losses in the region in the wake of EU enlargement, however, is not so clear cut.

¹⁶ Kulikova (2002). p. 58.

On the new map of Europe, the Kaliningrad region finds itself doubly isolated. It is cut off from the Russian mainland by high transport tariffs and EU internal norms, in particular by the environmental requirements set for transport vehicles and veterinary/phytosanitary standards. It has been de-linked from EU territory by various kinds of barriers, visas included. All this incurs the risk of the region lagging still further behind both the neighbouring states and other Russian regions, thus making it less attractive to investors and necessitating higher government expenditures to support its economy.

The operations of the special economic zone (SEZ) in the Kaliningrad region came under serious threat immediately after EU enlargement which opened up a duty free conduit for foreign goods into the Russian market. Given the difficulties they faced in increasing their exports to Western Europe, the NMS (Poland and Lithuania to the fore) made best use of the zone, turning it into a convenient entry point for export expansion into Russia and other CIS countries. Polish and Lithuanian companies began setting up a network of joint enterprises with local firms. The latter imported low value-added goods into the Kaliningrad region on preferential terms and then processed the same to a minimal degree before selling them duty-free as Russian products throughout Russia. Their activities were supported by special government programmes adopted in both countries to promote eastern export.

If the Kaliningrad SEZ had maintained its *modus operandi* after EU enlargement, the region would have been able to increase imports from the EU countries and step up deliveries in roubles to Russia; its economy could have maintained a high growth rate. However, growth simply based on acting as a go-between would, in essence, make the economy neither healthier nor more sustainable. On the contrary, by its very inertia, it would gather speed on a vicious downward spiral, gradually damaging its external balance and losing stability and accumulating shadow incomes, while forfeiting critical potential and incurring losses for Russia. Those losses would not only be financial; they would also be systemic and technological losses as Kaliningrad could be used as a spring-board for massive imports into Russia of products that were no longer competitive in the West.

Consequently, less than a year after EU enlargement, the Russian government passed a new federal bill pertaining to the *Special Economic Zone in the Kaliningrad Region* which constituted a major change in the country's development strategy. The previous bill pertaining to the SEZ was mainly aimed at promoting import-substitution manufacturing; the current bill is designed to stimulate investments in export facilities. With this target in view, the bill grants visa, customs duty and tax privileges to investors with the capacity to invest at least 150 million roubles in start-up projects over a three-year period. Nonetheless, enterprises lacking that capacity and already operating in the zone will retain the privileges granted them by virtue of the 1996 bill for a further ten years.

Given the inadmissibility of the question that Russia posed on the eve of EU enlargement about restrictions on the movement of goods and people between the Kaliningrad region and the rest of Russia, the issue is still very much on the agenda. Attempts have been made to solve the problem partially by introducing a special ruling for Russian nationals transiting Lithuania. If an agreement had been reached with Lithuania on permitting (more or less) free transit, the Kaliningrad region would have become, in economic and political terms, a 'window to Europe' for Russia. In the course of time, however, it became clear that things were leading nowhere. Lithuania not only introduced a visa regime, albeit less severe, for passengers in transit, but it is constantly setting stricter requirements for travel documents.

According to many Russian experts, the best solution would be to exploit the unique geopolitical situation of the Kaliningrad region and convert it into a regional pilot scheme for Russo–European cooperation. 'This territory', argued A. Stepanov, Vice-Presidential Representative in the North-Western District, 'has to be the centre where efficient technologies for bilateral interaction are developed, primarily with a view to establishing all-European spaces'.¹⁷ N. Smorodinskaya, President of the Centre on Growth Poles at the Institute of Economics, Russian Academy of Sciences, is of the opinion the 'Kaliningrad has to be an independent Russo–European project of economic reform which, in the course of time, will be the only chance we have of putting mechanisms of real rapprochement between Russia and Europe to the test'.¹⁸

Part 2

Prospects for establishing a Common Russian–EU European Economic Space

Most of Russia's trade and economic cooperation problems related to EU enlargement might be resolved within the framework of an EU–Russian Common European Economic Space (CEES). The idea was proposed by the European Union and recorded in the Joint Statement issued at the Moscow Summit of Russian and EU leaders in May 2001. At the following session in Brussels in October 2001 the European Council mandated the High Level Group (HLG) to develop the concept. The HLG set about analyzing the opportunities offered by deeper economic integration and legal rapprochement and assessed future activities in all their variants.

Despite the politicians declaring loudly at the Russia–EU Summit in Rome that they planned to have the CEES established as early as 2007 the practical implementation of the concept, however, is only something for the more distant future, as even those experts

¹⁷ Stepanov (2005).

¹⁸ Smorodinskaya (2005).

advocating maximum strengthening of ties with the EU would admit. For example, the joint EU–Russia declaration at the Summit in St. Petersburg in May 2003 on the intention to strengthen cooperation along a number of lines clearly stated that the CEES project had to be incorporated within the broader context of the four Common Spaces (economy; freedom, safety and justice; common external security; and science, research, education and culture). On the one hand, objective conditions have been set for the linkage; on the other hand, the implementation of the CEES concept has been effectively postponed until a much later date.

The development of the concept was preceded by rounds of discussions between Russian and EU experts. The debates revealed significant differences in approaches on both sides and in the manner in which the image of a future unified Europe is conceived.

For the *EU experts*, the preferred option for creating the CEES would be to have the Russian Federation adopt step-by-step the lion's share of EU legal regulations and standards. This approach was already evident in the Partnership and Cooperation Agreement (PCA) concluded between the Russian Federation and the EU in 1994, as well as in the European Union Common Strategy on Russia drawn up in 1999. In the course of their work on the concept, the European experts demanded, as a precondition to establishing privileged economic relations with the CEES countries, that Russia should adjust to EC legal norms and economic practice, i.e. harmonization of management and economic practices on both sides. The work was supposed to be carried out in relation to standardization and certification, customs, government procurement, competition rules, services (notably accounting, reporting and auditing, transport and communications), as well as in agriculture and a number of industrial sectors (ferrous and non-ferrous metals, aircraft and motor-car manufacture).

Russia's experts insisted that the CEES could only be beneficial if Russia were to join the WTO and its economic interests were taken into account in the EU enlargement process. A comprehensive international agreement, e.g., based on a modified PCA, was offered as an organizational and legal setting for the 'space'. As for filling that 'space', they proposed that a classical free trade zone should be established in accordance with the criteria of GATT/WTO Article XXIV and registered with that entity, once Russia had joined the WTO.¹⁹

¹⁹ According to the article, the zone should cover the major part of trade relations between the partners, be created within a predetermined period (or simultaneously) or in accordance with a schedule for the purpose of timely notification of third countries without worsening the conditions of access to the zone's market for the latter compared to previous conditions.

They proposed a step-wise transition to free trade within the CEES, taking as its starting point the EU and Russian schedules registered with WTO, with provisions for transition periods (or even exclusions) for a series of sensitive goods in mutual trade. For the transition period, Russian experts proposed retaining the trade preferences granted to Russia by the European Union, including 'social preferences', to which Russia was entitled as a state signatory to the relevant ILO conventions.

In the opinion of the Russian experts, the CEES constituted an agreement with standard (or individually variable) conditions that was open to other European countries, including Ukraine, Belarus, Moldova and the Balkan states. In other words, Russia viewed the CEES as a tool to facilitate multi-speed integration within the border of Greater Europe and its periphery.

The Russian experts were extremely cautious about the idea of Russia adopting legislation in the development of which it had not taken part: legislation, moreover, that failed to meet its interests in many respects. They believed that, based on a free-trade zone, the CEES participants could gradually move forward towards extending All-European cooperation in certain sectors on the basis of the 'WTO plus' principle. They supported the idea of the CEES as a classic free-trade zone with the four freedoms established in accordance with GATT/WTO criteria. As for the organizational and legal framework of the space, they put forward a comprehensive international agreement based on a modified PCA.

A notable lack of convergence between the two positions became apparent in the CEES concept paper adopted in Rome in November 2003. A compromise struck between Russia's interpretation of what the CEES should contain and the stance maintained by the EU led to ambiguous wording. The concept paper stated that 'the CEES means an open and integrated market between the EU and Russia, based on the implementation of common or compatible rules and regulations, including compatible administrative practices, as a basis for synergies and economies of scale associated with a higher degree of competition in bigger markets. It shall ultimately cover substantially all sectors of economy'. As the definition suggests, the CEES is based not on a free-trade zone (as Russia insisted) but on extended economic cooperation 'aimed at promoting trade and investments between the EU and Russia; ... creating opportunities for business operators through common, harmonised or compatible rules and regulations as well as through inter-connected infrastructure networks; enhancing the competitiveness of the EU and Russian economies worldwide'. The idea of the 'four freedoms', on which Russia insisted, was reduced to 'the intention to focus ... on pushing aside the obstacles and creating new opportunities in four main areas of economic activities', which are:

- Cross-border trade of goods, covering substantially all industrial and agricultural goods, including the necessary rules – whether set by standards, technical specifications or other regulatory and legal requirements, – organizational structures and procedures; while ensuring that these do not create unnecessary obstacles to trade and promoting equivalent levels of the protection of safety, health and the environment.
- Cross-border trade in services, including relevant regulatory standards and requirements;
- Establishment and operation of companies, including, inter alia, issues related to movement of capital, environmental standards and good corporate governance;
- Related aspects of movement of persons, in the relevant fields of economic activity.

The main instruments to be implemented in the given areas should be market openness, convergence in the area of regulation and trade facilitation.

Further developments of the CEES concept took the form of a Road Map adopted on 10 May 2005 as a supplement to the Road Maps on The Common Space on Freedom, Security and Justice, The Common Space on External Security, The Common Space on Research, Education and Culture (see Appendix 2). Analysis of the action plan proposed testifies to the broad dimensions of the areas of cooperation and, at the same time, to the purely declamatory character of the targets set. As for content, the preamble to the CEES Road Map fails to mention the need to harmonize legislation or even emphasize the importance of designing common or compatible regulations, rules and systems that were part of the CEES Concept. The Road Map limits itself to calling for ‘creating conditions to improve chances for economic operators’. As is well known, the EU has always stressed in its negotiations with countries seeking EU membership that ‘it does not accept the establishment of harmonized regulation that might differ in any way from the *acquis communautaire*’.²⁰

Several noted Russian researchers, in particular I. D. Ivanov, former Deputy Foreign Minister, have expressed their ‘doubts about the feasibility of the European Union’s intentions to deal with Russia on the CEES, worthy of the name’.²¹ Apart from the vagueness of formulations adopted in the CEES concept, the lack of clarity and agreement on issues central to the viability of the CEES idea would seem to support the above conclusion.

²⁰ Quoted from: Fact Sheet Bilateral I, on the first set of sectoral agreements between Switzerland and the EU, from the website of the European Integration Office of the Swiss Federation, www.admin.ch.

²¹ Ivanov (2002).

1. In the final analysis, total vagueness about EU common security policy and 'European defence identity' will substantially complicate the task of implementing the idea of a common European economic space. In any event, the development of Russia's relations in this field has developed far more dynamically with NATO than with the EU. For Russia, it is evident that any common economic space in Europe should be based on a common European security space.
2. A precondition for establishing the CEES is Russia's membership in WTO. EU official statements have repeatedly expressed interest in Russia's membership in this international organization. However, in practice, it has transpired that the EU is a most difficult partner to negotiate with; reasonable compromises are extremely difficult to reach. As is well known, the EU insisted that Russia should agree to raise its domestic prices for energy close to those in Europe. From Brussels' point of view, price-setting practices in the Russian Federation are totally unfair; they favour Russian companies. According to the Russian position, huge energy resources are one of the country's natural advantages that should not be ignored simply to please their European competitors. Once any progress is achieved on setting up a free-trade zone between Russia and the EU, the latter might well express similar reservations on labour conditions and environmental policy in Russia and demand that the country adopt labour and environmental laws similar to those in Europe.

Moreover, the EU has insisted that Russia has to bring its domestic legislation in line with WTO rules and regulations prior to joining the WTO (i.e. regardless of whether or not Russia is admitted to the WTO).²² With the world's highest subsidies for internal agriculture, the EU is trying to impose limitations on the support that Russia lends its domestic agricultural producers.²³

Events in recent months have shown that the US position as to the conditions on which Russia joins the WTO is getting tougher. Georgia has even placed new demands on Russia. One has good reason to assume that, after leaving Russia behind in the race to WTO membership, Ukraine will also block (or, at least, delay) Russia's entry to the organization.

²² The problem at issue entails more than 400 legal bills with amendments and modifications thereto and more than 1000 regulations. At the same time, when the People's Republic of China joined the WTO with 2000 legislative acts and more than 800 regulations in need of amendment, no similar requirements were laid down. The totality of amendments was divided into two groups – to be introduced 'before' and 'after' joining the WTO.

²³ The figure of USD13 billion was obtained in response to our request; it may appear too high (in fact, the 2002 budget provided about USD1 billion for that purposes). It should be understood, however, that apart from new investments, the figure may include clearance of old debts which, according to WTO regulations, are formally covered by the same clause.

3. At present, Brussels is going through 'a stage of general weakness and lacking ingenuity', obviously burdened by major internal problems as a result of EU enlargement. The European Union has paid an exceptionally high price for its eastern enlargement; the price paid was not limited to financial investments in the project which, as calculations show, were ultimately rather modest. More significant was the impact of enlargement on the implementation of long-term programmes for deepening European integration, as foreseen in the Maastricht and Amsterdam Treaties on the European Union and other EU strategic resolutions. The price the EU has paid is immeasurably higher as clearly evidenced by: the outcome of the referenda in France and the Netherlands on ratifying the EU Constitution; the United Kingdom's decision to postpone a similar referendum indefinitely; the more active stance now being adopted by Euro-sceptics in all EU member states; the acknowledgement at all levels of the contradictions that have emerged between the declarations of integration principles and the long period of time needed to implement them successfully (such as enlarging the EU and including deeper integration processes in its framework).

For all the differences and nuances in the evaluations of the outcome of the new enlargement for the European Union proper, all those participating in the debate agree on one point: EU heterogeneity is increasing radically. We share the concerns of those researchers who have pointed out that in the event of unfavourable circumstances occurring, the differences in levels of development and the differentiation between nation states' interests may lead to a preponderance of centrifugal over centripetal trends within the European Union. In a critical situation, the EU might split into several regional groups or 'disintegrate' completely. Even with the most favourable outcome, the 27 EU states will face immense hardship as they run the course towards a federal Europe as charted by the founding fathers of the European Communities in 1950s. The main conclusion which most analysts have already reached is that the EU has no other choice but to 'integrate at different speeds'.

Given the major internal problems besetting the EU, will it really launch an ambitious project and establish a common economic space with Russia? There appears to be no clear answer, yet many doubts have been voiced.

4. One final emerging issue deserves attention as it is key not only to the fate of the CEES, but also to Russian-EU cooperation prospects at large. It relates to the immediate consequences of EU eastern enlargement, upon the completion of which the EU will lay claim to the lead role in European as a whole; this is tantamount to saying EU = Europe. For its part, Russia is intent upon fostering its specific vision of European integration based on two pillars: (a) the European Union in the West; and (b) integration formulae initiated by Russia in the East (e.g. the Single Economic Space). In this way Russia could retain some control over the post-Soviet European countries – an area of strategic interest to the Russians.

Thus, the manner in which ideas of a common European economic space merge with those of the regional integration groups on the territory of the former USSR becomes a major issue. As things appear currently, questions relating to the forms of and limitations on interaction between the countries of Europe and the countries located in the western part of the Commonwealth of Independent States (CIS) are the main bones of contention between Russia and EU in terms of foreign policy. Plans for the area's future are becoming points of major dispute for both sides.

The first draft of a policy towards the eastern neighbours of the enlarged EU was presented in March 2003 in a communiqué from the European Commission entitled *Wider Europe*.²⁴ The final concept of a comprehensive long-term vision of relations between the EU and its eastern neighbours was published by the European Commission on 12 May 2004 in the European Neighbourhood Policy (ENP) strategy paper approved by the Council in June 2004. In addition to the Eastern European countries (Ukraine, Belarus, Moldova and Russia), the ENP also covered the Southern Caucasus (Georgia, Armenia and Azerbaijan) and the Mediterranean region (Israel, Jordan, Morocco, Algeria, Egypt, Lebanon, Libya, Syria, Tunisia and the Palestinian Authority).

The document clearly states that the strategy paper is not intended to lead to EU membership. The very name of the policy and the proposed signature of European Neighbourhood Agreements suggest that its addressees will remain neighbours of the Union in the foreseeable future; consequently, they would not even be potential members of the Community.

To those addressed by the concept, the EU has offered enhanced political cooperation and economic integration. Bilateral cooperation is to be based on the principles of partnership, the rule of law and respect for common values.

Russia and Belarus have responded negatively to the ENP idea; they have refused to participate in the project. Their decision was based on two factors. First, according to the Special Representative of Russia at the EU Sergey Yastrzhemsky, the ENP is inappropriate to EU–Russian relations since ‘no other EU neighbour had relations as intense as Russia’;²⁵ consequently, Russia expected separate and special treatment on the part of the EU. Secondly, the Russian Federation places great emphasis on equality and partnership; it does not accept a formula that assumes unilateral adjustment of its legislation to that of the EU. Even those participating in the European Neighbourhood Policy project argue: ‘One of the key problems of the present formula is discrepancy

²⁴ www.europa.eu.int/comm/internal_relations/we/intro/p03_358.htm.

²⁵ Quoted from *International Herald Tribune*, 10 November 2004.

between the declared partnership and the actual asymmetry of the EU's relations with the neighbour countries. Formally, the ENP assumes equal rights of the EU and the addressees of the neighbourhood policy. However, the objectives it set out, namely the promotion of EU values, political and economic standards, created in practice an asymmetrical situation, where one side sets out its expectations, indicates directions for transformation, and evaluates the actions taken by the other side, offering it certain bonuses in exchange. Considering this situation, the idea of equality is rather unrealistic. In its desire to promote its own values, standards and regulations, the EU has been unable to escape admitting the fact that its relations with the countries which are the addressees of this promotion are asymmetrical (which does not exclude mutual respect and subjective treatment). Therefore it cannot avoid the consequences connected with such a formula of mutual relations.²⁶

At present, EU eastern policy consists of three main strategies: the enlargement process, the European Neighbourhood Policy and the Four Common Spaces with Russia. The process of further expansion is becoming increasingly complicated and will probably slow down for objective reasons (such as the impact of the latest large-scale expansion of mechanisms for European integration that objectively strengthen multi-speed integration or the failure of the EU Constitution referenda in France and the Netherlands) despite eight countries having attained the official status of entry candidates. That notwithstanding, the European Neighbourhood Policy has received considerable attention and appreciable resources; things are now progressing with the eastern CIS neighbours.

According to initial proposals, approximately EUR 15 billion will be spent in the period 2007-2013 as part of the ENP instruments. That is equivalent to close on 60% growth in average annual spending compared to the period 2004-2006.

The EU has demonstrated growing engagement with the CIS members currently covered by the ENP. A vivid example is the West's reaction to the framework agreement on establishing a single economic space (SES) that Russia, Ukraine, Belarus and Kazakhstan signed in Yalta on 19 September 2003. Little wonder that senior EU officials and, in particular, the European Commissioner Günter Verheugen, who for a long time was occupied with EU enlargement issues, mentioned 'painful consequences of Ukraine's joining the SES'. 'In case the SES becomes a type of customs union', he claimed, 'this could be fraught with certain consequences that may influence the nature of relations between Ukraine and EU and will also affect Ukraine's entering WTO ... The process of Ukraine's integration into EU could be slowed down or even stopped ...'.²⁷

²⁶ Centre for Eastern Studies (2005).

²⁷ 'The West Dislikes CES', *U and G*, 30 September 2003.

Over the past few years, the EU has launched a series of initiatives in Moldova, particularly related to the frozen conflict in Transnistria. More recently the EU has entered into closer contact with its ENP partners in South Caucasus, although perhaps less conspicuously so than in Moldova. This was most evident when it extended the ENP to include the three countries in the region in June 2004.

At present, after the Orange Revolution in Ukraine and the Revolution of Roses in Georgia, and following the EU boycott of the election results in Belarus, the CIS space has obviously become the scene of a most acute political struggle between the European Union and Russia. Many experts, not only from Russia, share the view that the European Union will try by all means possible to curtail Russia's influence on the post-Soviet space.²⁸ According to the CISbarometer (reflecting the standpoints of the Koerber Centre in Hamburg and the Research Institute attached to the German Council on Foreign Policy in Berlin), 'The years 2003-2005 have seen dramatic developments in the eastern part of the continent which may revamp the future political map of Europe. Democratic revolutions, similar to those fifteen years ago in the former Warsaw Pact countries, have swept away the corrupt and authoritarian post-communist regimes in Georgia, Ukraine and Kyrgyzstan. Popular mass protest and further 'revolutions' may soon emerge in other post-Soviet states, including some Russian provinces ... If the EU wants to gain any influence in its strategic eastern neighbourhood it must act without delay with its newly established European Neighbourhood Policy ... Russia's growing suspicion about the EU's involvement in its strategic neighbourhood, which Moscow sees as its own "near abroad", as well as the lack of coherence among the EU member states regarding the approach to Russia, may confront the EU with an unpleasant dilemma between fostering a pragmatic partnership with Russia (and perhaps acknowledging Russia's right to rebuild its own hemisphere on post-soviet space) or fully supporting the democratic GUAM countries (named after the first letters of the member states Georgia, Ukraine, Azerbaijan and Moldova) against Moscow's neo-imperialism.'²⁹

Analysis of the first steps taken by the EU to implement its neighbourhood policy, the content of the first Action Plans and the ENP instruments, as well as the Road Maps³⁰

²⁸ Belov (2003), Kazin (www.mpa.ru).

²⁹ www.dgap.org.

³⁰ Road Maps for the Common Spaces between EU and Russia are similar in structure and in many cases in substance as well, to the ENP Action Plans. There are, however, important differences, a prominent one being the relative absence of political conditions in the Road Maps. The ENP Action Plans contain long and relatively detailed lists of political criteria on issues such as democracy, rule of law and human rights, to be fulfilled in order to move 'from cooperation to integration' and further deepen bilateral relations. Apart from the brief preamble in the Road Map on the Common Space for Freedom, Security and Justice, there are only scattered references to 'common values' in the other Road Maps. – The Action Plans and the Road Maps also differ on economic issues. First, the PCAs with Russia, Ukraine and Moldova call for eventual free trade. This goal is reiterated in the Action Plans, but is not mentioned in the Road Maps. Legislative approximation and regulatory convergence feature prominently in both the Action Plans and the Road Maps. But whereas it is explicitly stated that this entails convergence towards EU rules and international (footnote continued)

setting out the objectives and principles of creating the Four Common Spaces, adopted during the EU–Russia Summit held in Moscow in May 2005, shows that the EU no longer regards Russia as the priority partner in the post-Soviet region. It is now turning more towards Russia's partners among the western CIS countries.

The ENP is transmitting a relatively clear message to Russia about the Union's interests and objectives in Eastern Europe. It states explicitly that the EU intends to discuss all issues directly with the countries concerned – and not with the mediation by Moscow. As a result, conflicts of interests over Eastern Europe will emerge between Russia and the European Union as it pursues its European Neighbourhood Policy.

Part 3

Prospects of Russia's cooperation with an 'enlarged' Europe

Ten countries – new members of the European Union since May 2004 – have become objects of extremely complicated economic and political relations between Russia and the EU. This has developed against a backdrop of significant uncertainty in the policy of Greater Europe towards Russia and vice versa.

The Russian-EU cooperation projects that have been announced take on ever more ambitious forms each year; the results of their implementation, however, are more than modest.³¹ It should be recalled that the Partnership and Cooperation Agreement between

standards in the Action Plans, the Road Maps are not clear on this. While there are a few references to international standards and agreements, EU rules and standards are not mentioned at all. – The Road Maps contain hardly any new arrangements; nor do they offer any solutions to the already existing moot points. Symptomatically, no timeframe for the implementation of the documents signed has been set. All this indicates that the Road Maps will for the most part remain on paper, and will not bring about any significant changes in mutual relations.

³¹ The resolution of the European Parliament's Committee on Foreign Affairs (February 2004) stresses, *inter alia*, the 'growing gap between the rhetoric and practical achievements in several areas of Russo–European cooperation, beginning with the economy and battle against crime and ending with joint research'. The situation 'rapidly becomes unhealthy', it states and calls on the members of the European Union and the Commission to revise the entire complex of Russia–EU relations. The EU might play a key role in Russia's transformation into 'a free, democratic market economy', a mission it now obviously does not comply with 'in a most regrettable way', the draft resolution continues. In the hearings in the European Parliament Brian Cowen, Foreign Minister of Ireland, declared that the European Union has to 'step back' and critically decide what, in fact, it wishes from its relations with Russia, and how the desired result could be attained. – The EU sees the weakness of its 'Russian policy', in particular, in frequently setting too many goals and many areas of cooperation with the clear priorities failing. The hierarchy of priorities proposed in the resolution appears as follows: Cooperation in security matters: joint solution of border issues, problems of radioactive pollution, environmental problems, illegal emigration, cross-border crime. As for the protection of human rights, democracy and state of law, whereas the authors of the European Parliament resolution called for a particular focus on Chechnya, the EU 'must have a common opinion on the situation in Chechnya' and it has to be based on common European humanitarian principles. In respect of economic cooperation, trade in particular, the paper, for the first time, stresses the idea that hitherto the EU has proceeded from 'overestimating its dependency on Russian oil and gas and underestimating Russia's demand for European markets'. Particular claims were also included: for example, Estonia and Latvia demanded that the agreement include their claim that Moscow should immediately ratify their border treaties. – Further events showed that access of new members to the EU has not simplified EU–Moscow relations.

Russia and the EU provided, in principle, for an opportunity to create a common free-trade zone. Negotiations on actually setting up a common free-trade zone between the EU and Russia, projected as far back as 1998, have yet to start. The EU Commission's Strategy Plan for 2002-2006 for Russia contained no reference whatsoever to negotiations on the free trade-zone, nor is it mentioned in the Road Map on the Russo-European CEES.

Why is collaboration between Russia and the EU apparently becoming less efficient and more problematic? Is it all simply a matter of the respective partners' 'weight'? There is no denying that the EU and Russia are not equal in every respect. Following the integration of the countries of Central and Eastern Europe, the population of the EU now weighs in at more than 450 million as against Russia's constantly declining population of 143 million. Russia's GDP is a mere 5% higher than the CEEC GDP and is equivalent to only 10.5% of the extended EU GDP. Consequently, the real volume of the enlarged EU economy is almost ten times that of Russia.³² This drastic difference in indices is likely to remain unchanged in the near future.

Russia is appreciably poorer than the European Union: its real GDP per capita amounts to just 40% of the EU-25 average GDP.

A similar imbalance characterizes trade between the two partners. For the EU, Russia is a relatively small trading partner. The current significance of Russia's market to the EU can be compared to that of Hungary, while the EU is one of Russia's major trading partners: the EU-25 account for more than a half of Russia's exports and imports.

The commodity structures of Russian exports and imports also differ significantly; in fact, there are no inter-industry links between Russia and the EU or between Russia and the CEECs. While the EU only supplies finished products to Russia, energy products constitute half of Russia's exports to the EU.

There is no doubt that the imbalances mentioned play a role. However, in our view they are not decisive. It seems that the problems associated with the instability of Russia-EU cooperation have their roots primarily in the asymmetry of the partners' goals and expectations. Since the early 1990s, the EU has considered its key policy goal to be support for Russia's transition to democracy. The common strategy that the EU adopted on Russia emphasized that 'a stable, open and pluralistic democracy in the Russian Federation managed on the basis of the government of law principle and being a foundation of a flourishing market economy' is target number one of EU politics. By way of contrast, Russia's Medium-Term Strategy on EU does not pay much attention to Russia's

³² Havlik (2003). p. 32.

internal problems, but focuses on the importance of 'strategic partnership between peers' that would not restrict Russia's sovereign rights as a world power'.³³ There is broad consensus within the EU on the need to respect common European and universal values in order to develop a real strategic partnership. Over the years the European Parliament has been consistently in favour of adopting a harder line vis-à-vis Russia, urging the EU to focus on 'values' rather than 'interests'.³⁴ While setting priorities for collaboration with Russia, members of the European Parliament are prepared to accord lowest priority to economic issues. They attach higher priority to:

- cooperating on safety issues: mutual resolution of boundary matters, problems of radioactive contamination and general problems of environment, illegal emigration and cross-border crime;
- defending human rights, democracy and the rule of law. The authors of the European Parliament resolution call for a special focus on Chechnya in future. The EU 'should have a common opinion on issues related to the situation in Chechnya' and this opinion should be based on humanitarian principles upheld throughout Europe.

For the first time ever, the report has voiced publicly the idea that hitherto the EU 'has overestimated its dependency on Russian oil and gas and underestimated Russia's demand for European markets'.

Under ideal circumstances, the EU would hope to have in Russia a politically stable economic partner acting in accordance with the same standards as Europe. In its turn, Russia needs an EU that could, under similarly ideal circumstances, become a source of direct foreign investment and technology, but would refrain from interfering in Russia's internal political affairs.

As a result, Russia and the EU have adopted diametrically opposite approaches in their evaluations of cooperation prospects. Whereas Russia insists on a 'strategic partnership' among peers and common interests, the EU strategy aims at fundamental changes in the Russian Federation itself as a means of making the country more responsive to EU standards and values.³⁵

The EU position is clear to, but unacceptable for, Russia – not solely because it creates asymmetric relations between the EU and those countries which have accepted the ENP programme. Despite ten years of reform, Russia has evidently failed to attain acceptable

³³ Common Strategy of the European Union of 4 June 1999 on Russia (1999); Medium-Term Strategy of Relations between the Russian Federation and the European Union (2000-2010).

³⁴ Emerson (2005).

³⁵ Common Strategy of the European Union of 4 June 1999 on Russia (1999).

standards of European democracy and market economy. At the same time, a special system characterized by a more or less stable organizational balance determines relations between major political and economic players.

The equilibrium is linked to the results of privatization and the present government's policy. Accepting the rules and values dictated by the European Union would upset the existing balance between the Kremlin and the economic elite. Under current conditions neither the government nor the business sector is ready for it. Russia's administration is obviously not interested in the EU interfering in Russian internal affairs, in particular in the war that still lingers on in Chechnya.

Surveys reveal that Russian entrepreneurs are also rather pessimistic about collaboration with Europe. Not in the least do they want European competitors to enter Russia's markets, although they would like to secure profits from exporting energy to the EU countries and obtain access to innovative European technologies. Currently, the Russian economy is hyperliquid and, on the whole, does not need mere inflows of funds. As for really efficient investments, they could only be granted in exchange for a measure of control over some of the more profitable industries.

Russia fully understands that owing to its export structure and the low competitive strength of its industry, the greater part of Russia–EU trade has *de facto* been liberalized. The average EU tariff on Russia's exports is 1.5%; almost 90% of its exports are not subject to tariffs. Moreover, Russia does not use its EU export quota to the full (for instance, it only uses 20% of its export quotas for most textile products). Russia's annual losses from various EU import limitations only amount to some USD 200-300 million; this corresponds to 1.5% of Russian industrial exports.³⁶

The new EU member states are thus confronted by extremely complicated economic and political relations between Russia and the European Union, while from the EU standpoint Russia is obviously losing its strategic priority status in the post-Soviet region. EU policy is more actively directed towards such countries as Ukraine, Georgia, Moldova, Armenia and Azerbaijan; it objectively runs counter to Russian policy in the region. Signs can be discerned of Russia starting to evaluate the efficiency of collaboration with Europe not only in terms of various trade balances (which are still in Russia's favour), but also in terms of regional (growing contradictions) and international factors (a very complicated system of conflicting interests between the EU, USA and Russia).

³⁶ Havlik (2003), p. 38.

In summary, it can be concluded that:

- In the wake of vigorous political actions after the eastern enlargement of the European Union, in particular the signing of the Road Maps for the Four Common Spaces, the level of Russia–EU cooperation can be seen to have decreased in real terms. Apart from the declamatory nature of the Road Maps, this is evidenced by the shift in the character of the documents signed by the EU and Russia. For example, the PCA (Art. 55) stipulates that the norms of European law are essential to cooperation with Russia. The CEES concept paper emphasized the importance of ‘common or compatible rules’; the economic Road Map spoke of ‘conditions that would create opportunities for entrepreneurs’. The idea of creating a free-trade zone between Russia and the EU has been dropped; no schedule for its implementation has been drawn up, nor have the necessary funds been provided.
- The EU neighbourhood policy clearly shows that following its most recent enlargement, the EU has not only overstepped the limits of West European integration, but it has also laid claim to interests in the post-Soviet space: interests which it does not intend to coordinate with Russia (cf. EU policy on the frozen conflict in Transnistria, a more active EU policy in the Caucasus and the EU role of the Orange Revolution in Ukraine).
- The strict division of the world into zones of influence is fast fading away: a new competitive geopolitical environment is emerging in its stead. Today’s world is no longer broken down into rigidly marked zones of influence. On the contrary, the structure of the world order based on major blocs is being replaced by zones of networks, devoid of limits on influence and marked by growing heterogeneity. Various players can thus operate in the same location in one geographical space. The degree of influence is proportional to the individual player’s general strength and not the outcome of agreements concluded between global political players. This holds true for both the role of Russia and the EU in the post-Soviet space where heterogeneity is also on the rise.
- A series of factors show that in the years to come Russia’s relations with the EU will remain unstable. Apart from the growing contradictions between the EU and Russia in the post-Soviet space mentioned above, this prediction is borne out by: the growing inequalities between partners (1/10 GDP, 40% average GDP per capita of population, structural trade imbalance and size of the Russian market comparable to that of Hungary from the EU standpoint); and the divergent expectations in terms of cooperation.
- Analysis of cooperation between Russia and the EU should not be restricted to the measure of bilateral economic cooperation, with efficiency of performance being confirmed exclusively in terms of mutual trade volume. It should be matched by: (a) research into the impact of Russo–European cooperation on the situation in the region; and (b) an assessment of the opportunities for favourably changing global policy trends through that cooperation.

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Appendix 1

Table A1

Foreign trade of CEE-7 and the Baltic countries

	1995		2000		2004	
	USD million	%	USD million	%	USD million	%
Total foreign trade						
Trade turnover	204,693	100	298,389	100	620,037*	100
Export	93,114	100	136,065	100	287,357*	100
Import	111,579	100	162,324	100	332,680*	100
Trade with EU-15						
Trade turnover	118,937	58.1	184,073	61.7	358,632*	57.8
Export	54,660	58.7	87,907	64.6	188,002*	65.4
Import	64,277	57.6	96,166	59.2	170,630*	51.3
Trade with Russia						
Trade turnover	15,051	7.4	20,191	6.8	26,100	4.2
Export	4,884	5.2	2,269	1.7	5,845	2.0
Import	10,167	9.1	17,922	11.0	20,255	6.1

Note: * The total trade turnover of the CEE-7 and Baltic countries within the framework of the EU, mutual trade with the NMS included, amounted to USD 462,493 million (74.6% of overall trade) in 2004, including exports in the amount of USD 226,965 million (79.0% of overall export) and imports of USD 235,528 million (70.8% of overall import).

Source: IMF, Direction of Trade Statistics Yearbook 1996, Yearbook 2004; Quarterly, December 2005.

Table A2

CEE-7 and Baltic countries: trade with the EU

	Export to the EU						Import from the EU					
	Volume in USD million			Share in total export, in %			Volume in USD million			Share in total import, in %		
	1990	1995	2004	1990	1995	2004	1990	1995	2004	1990	1995	2004
Central European countries-new EU members												
Hungary	4,021.9	8,086.2	43,478	42.1	62.7	79.4	3,719.8	9,475.0	42,520	43.1	61.5	71.5
Poland	7,547.9	16,027.5	58,373	52.7	70.0	79.1	4,870.6	18,780.2	60,115	51.1	64.6	68.2
Slovakia	1,179.3	3,208.2	21,279	41.4	37.4	84.9	1,437.6	3,048.5	21,728	33.1	34.8	81.7
Slovenia	2,667.9	5,574.5	9,718	64.8	67.0	66.9	3,259.5	6,531.5	15,181	69.0	68.8	82.4
The Czech Republic	3,473.0	12,906.0	57,737	38.4	60.5	86.0	3,971.0	15,289.2	48,949	40.5	61.0	71.9
The Baltic countries-new EU members												
Latvia	333.0*	568.0	2,092.7	32.0*	44.2	52.6	259.0*	823.0	3,172.6	27.0	50.0	45.1
Lithuania	774.0*	984.0	4,234.3	67.0*	36.4	45.5	696.0*	1,356.0	5,556.1	50.5	37.2	44.9
Estonia	387.0*	1,006.0	3,694.1	48.1*	54.7	61.8	542.0*	1,683.0	5,148.3	60.5*	66.1	61.6
South-European countries applying for EU membership in 2007												
Bulgaria	747.7	2,016.4	5,322	5.6	37.7	56.8	1,510.9	2,105.0	8,377	11.5	37.2	57.6
Romania	1,956.7	4,283.4	17,170	33.9	54.2	73.1	2,004.6	5,185.5	19,276	21.8	50.5	65.1

Notes: * 1993. – After eight Central European and Baltic countries had joined the EU, the EU's share in their trade increased radically, also on account of their share in mutual exchange being included. In 2004 the trade volume within the framework of the EU grew by a factor of 1.5 in Hungary and Poland, by a factor of 1.7 in the Czech Republic, and by a factor of 1.9 in Slovakia.

Source: IMF, International Financial Statistics, July 2003; Direction of Trade Statistics Yearbook 1996, Yearbook 2004; Quarterly, December 2005.

Table A3

CEE-7 and Baltic countries: trade with Russia, in USD million

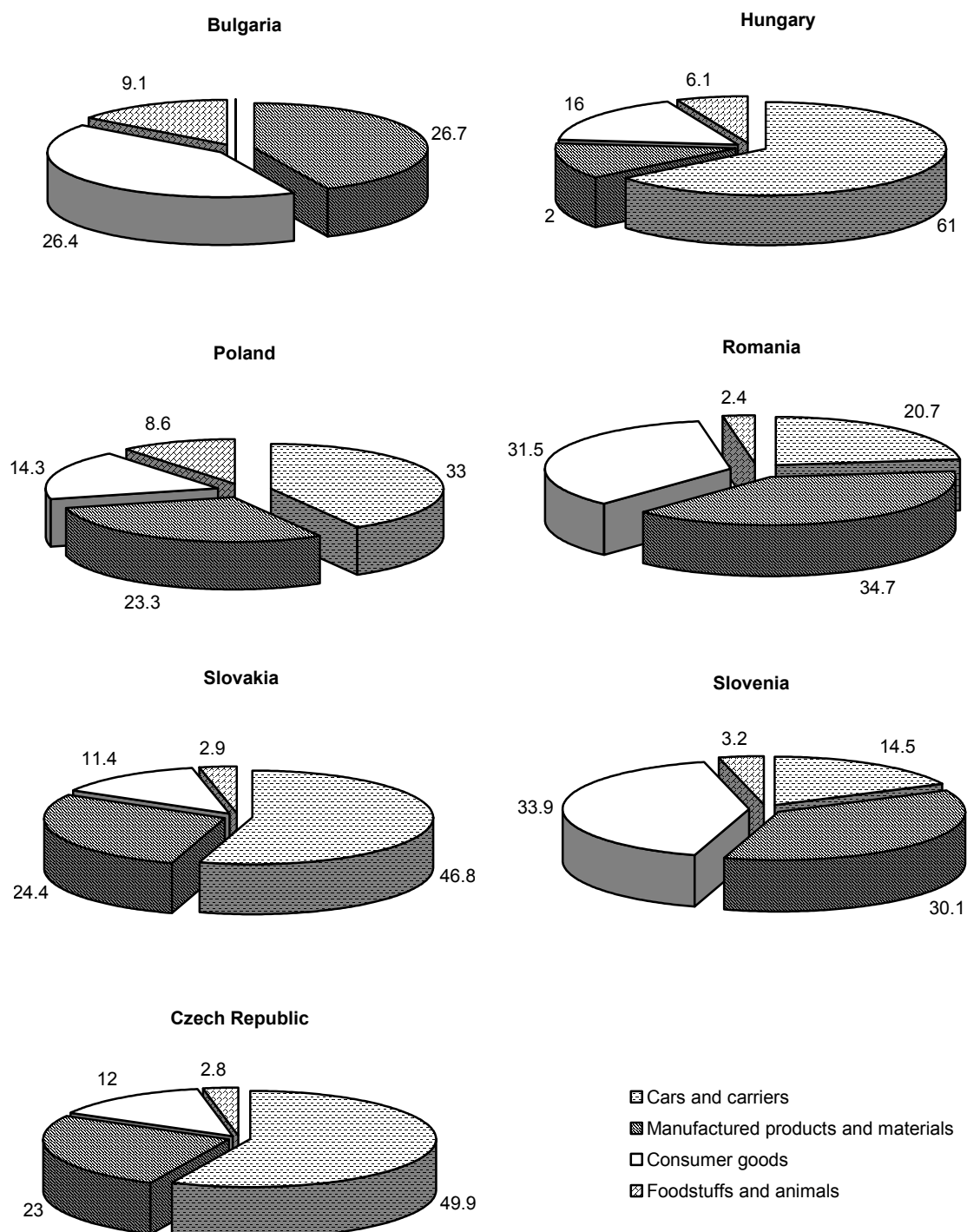
	1992	1993	RF Export 1995	2000	2005	1992	1993	RF import 1995	2000	2005
Central European countries-new EU members										
Hungary	1,506	2,098	1,609	2,588	4,874.7	1,089	622	842	455.4	1,170.9
Poland	1,648	1,311	1,605	4,452	8,979.9	1,230	529	1,322	716	3,947.5
Slovakia	-	932	1,194	2,121.6	2,684.6	-	168	294	105	318..9
Slovenia	...	166	117	231	514.4	...	232	341	191	409.3
The Czech Republic	2,598*	1,379	2,073	2,100	4,190.0	1,020	461	438	367	1,340.0
The Baltic countries-new EU members										
Latvia	...	270	356	1,626	614.6	...	297	320	91	254.5
Lithuania	...	329	1,139	2,065	2,853.9	...	49	552	149	863.6
Estonia	...	154	410	1,233	769.0	...	182	325	97	334.6
South European candidate countries for EU membership in 2007										
Bulgaria	1,165	942	670	584	2,870	584	245	472	116	160.0
Romania	605	475	627	921	2,700	431	102	132	79	181.0

Note: * Czechoslovakia.

Sources: Compilation based on data quoted in Directory of Trade Statistics Yearbook 1996, IMF; customs statistics of foreign trade of the Russian Federation, GKTk, Moscow, 1995-2002; 'Sotsialno-ekonomicheskoe polozhenie Rossii' (The Socio-Economic Situation of Russia), FSGS, 2006, pp. 120-126; Glinkina, S. and I. Orlik (eds.) (2005), *Rossia i Centralno-Vostochnaya Evropa: transformatsii v kontse XX – nachale XXI vekov. Tom II. Vzaimootnosheniya* (Russia and Central-Eastern Europe: Transformations in the late 20th – early 21st century. Volume II: Mutual relations), Moscow, Nauka, p. 68.

Figure A1

Export structure of CEE-7 in 2004 according to main commodity groups, in %

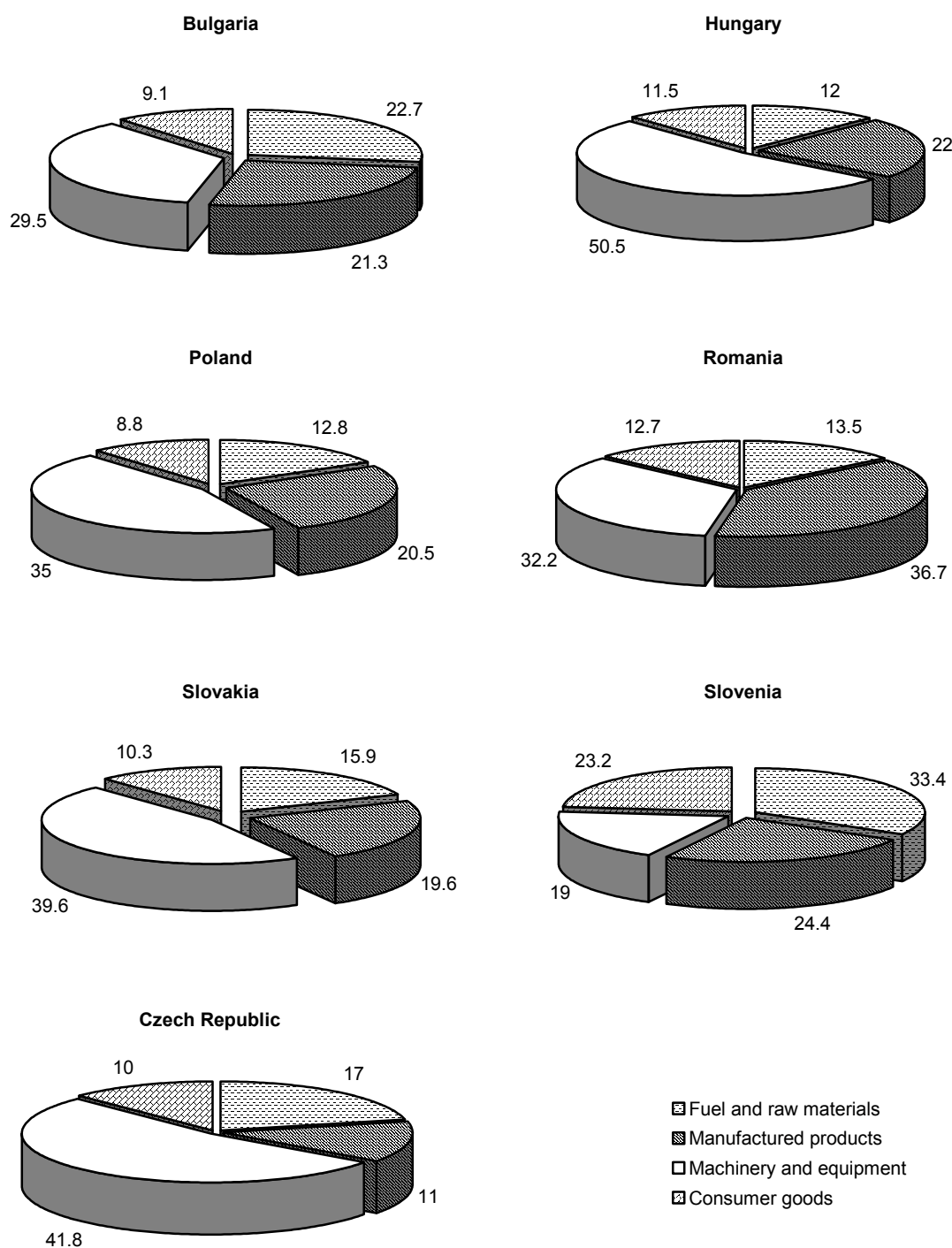


Note: 2005 for Hungary, Poland, Romania.

Sources: 'Posledstviya rasshireniya Evropeyskogo Soyuzha dlya ekonomiki Rossii' (The effect of the enlargement of the European Union on Russia's economy) (2004), CIS, Moscow; the countries' national statistical data.

Figure A2

Import structure of CEE-7 in 2004 according to main commodity groups, in %

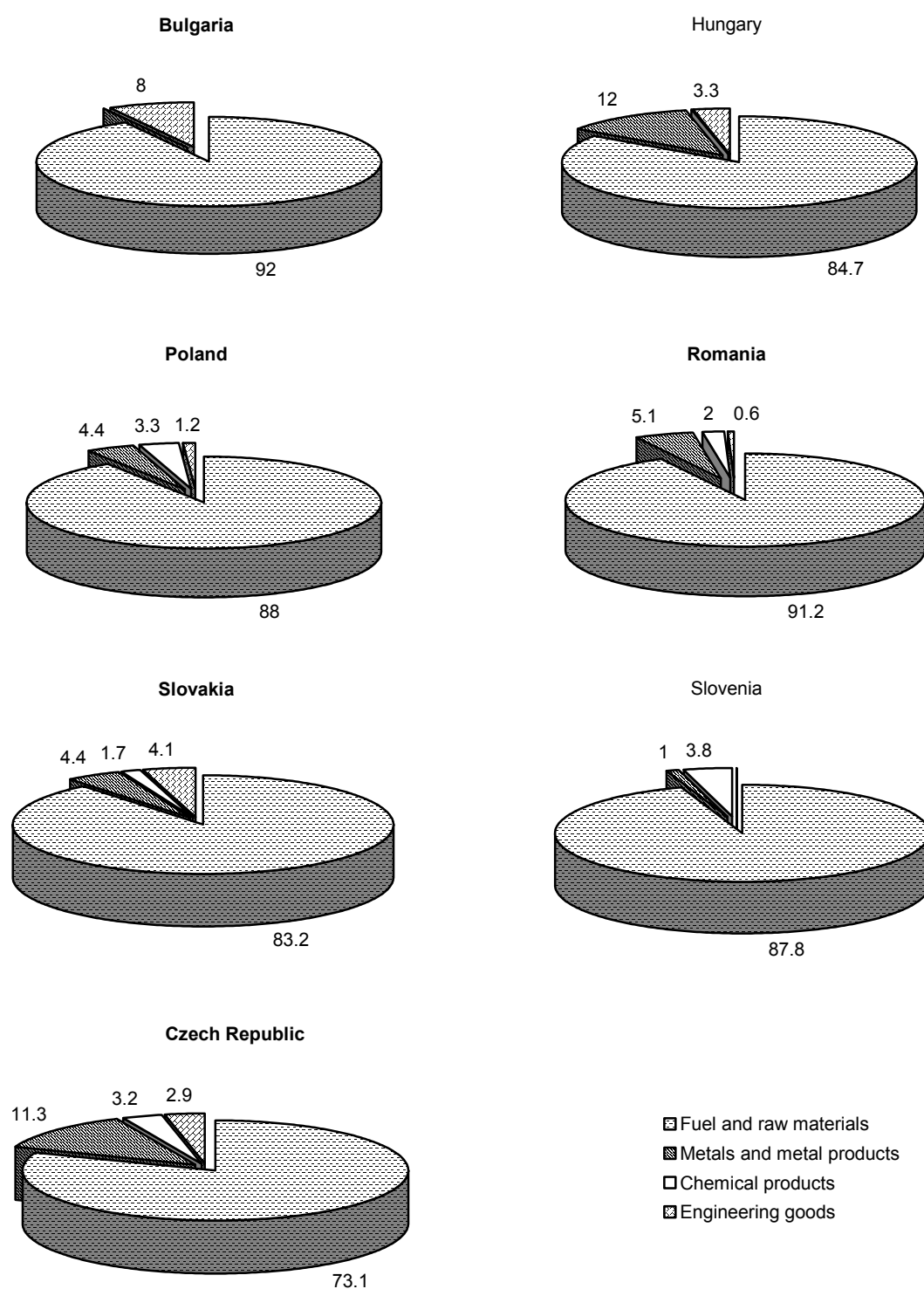


Note: 2005 for Hungary, Poland, Romania.

Sources: 'Posledstviya rasshireniya Evropeyskogo Soyuza dlya ekonomiki Rossii' (The effect of the enlargement of the European Union on Russia's economy) (2004), CIS, Moscow; the countries' national statistical data.

Figure A3

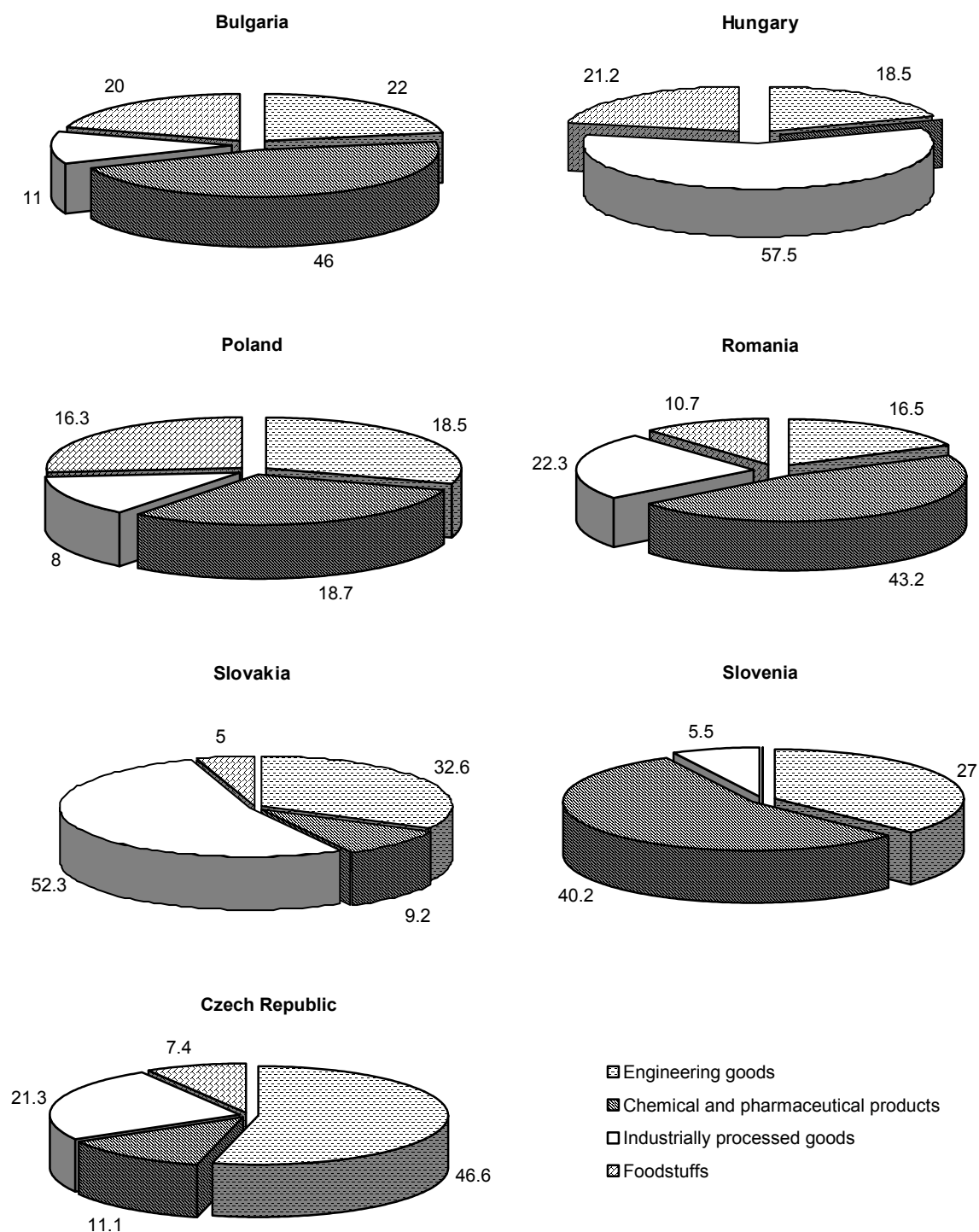
Russia's export structure in 2004 according to main commodity groups, in %



Source: Glinkina, S. and I. Orlik (eds.) (2005), *Rossia i Centralno-Vostochnaya Evropa: transformatsii v kontse XX – nachale XXI vekov*. Tom II. Vzaimootnosheniya (Russia and Central-Eastern Europe: Transformations in the late 20th – early 21st century. Volume II: Mutual relations), Moscow, Nauka; the countries' national statistical data.

Figure A4

Russia's import structure in 2004 according to main commodity groups, in %



Source: Glinkina, S. and I. Orlik (eds.) (2005), *Rossia i Centralno-Vostochnaya Evropa: transformatsii v kontse XX – nachale XXI vekov. Tom II. Vzaimootnosheniya* (Russia and Central-Eastern Europe: Transformations in the late 20th – early 21st century. Volume II: Mutual relations), Moscow, Nauka; the countries' national statistical data.

Appendix 2

Declared Road Map goals to create a Russia–EU Common European Economic Space

Cooperation areas	Cooperation goals
General issues of trade and economic cooperation	Development of harmonized and compatible standards, regulations and conformity assessment procedures, where appropriate, including through enhanced regulatory dialogue and cooperation between responsible institutions and a reinforcement of the institutional capacities.
Public procurement	Development of transparent, competition-based systems of public procurement at all levels including mutual access to tender databases.
Intellectual property rights	Improvement of the legislative and law enforcement systems for the protection of intellectual property rights in order to enhance competitiveness; improving the investment climate through the approximation of regulatory systems with the highest international standards and agreements.
Competition	Approximation of competition legislation systems and strengthening of implementation of competition policy.
Investment	Improvement of the investment climate, including by ensuring transparency, predictability and simplification of regulation and its application; promotion and facilitation of two-way investments.
Enterprise policy and economic dialogue	The development of in-depth dialogue on economic reform and enterprise policy, including an exchange of information on economic issues and policies, aiming at the improvement of the framework conditions for economic operators and their competitiveness, including dialogue in industrial policy.
Interregional and cross-border cooperation	Deepening and diversification of interregional cooperation.
Financial services (banking, insurance, securities)	To ensure, <i>inter alia</i> , the stability of the financial system, support the consolidation of a sound financial sector and an effective system for the protection of financial services consumers through improvement of the legislative base, effective supervision and law enforcement in accordance with the highest international standards and norms, applicable to financial service suppliers.
Accounting/auditing and statistics	To enhance the transparency of the economy and share-holder protection, create favourable conditions for investment by implementation of the highest international standards and norms in these areas and give economic actors access to the necessary statistical information.
Agriculture, forestry, timber, fisheries, sanitary and phytosanitary measures	To intensify cooperation to promote regulatory convergence in agriculture, notably with regard to issues related to sanitary and phytosanitary measures and animal health and welfare.

<i>Trade facilitation and customs</i>	To facilitate, standardize and automate procedures connected with foreign trade, including transit operations; to increase the parties' capacity to combat fraud, smuggling and other irregularities; to improve consultation mechanisms of the trading community on its needs with regard to the development and implementation of trade facilitation measures, with particular attention to small and medium-size enterprises.
<i>Telecommunications, information society and e-business</i>	To cooperate towards the creation of a common EU–Russia Information Society area.
<i>Transport</i>	To intensify cooperation through a structured dialogue on issues of common interest in the transport field with a view to promoting the complementarity of the Russian and EU transport sectors and gradual integration of transport networks, removing technical and administrative hindrances and ensuring transport infrastructures' interaction by way of approximating respective legislations.
<i>Energy</i>	Intensification of EU–Russia cooperation in the framework of the EU–Russia Energy Dialogue with particular emphasis on addressing issues related to sustainability, reliability and continued production, distribution, transportation and use of energy, including energy efficiency, energy savings and the use of renewable energies. In order to reach these objectives, it is important to promote and protect investments in the energy sector, facilitate the improvement of the investment climate, promote regulatory convergence and high standards of environmental protection.
<i>Space</i>	To build an effective system of cooperation and partnership between the EU and the Russian Federation in several fields of space activities.
<i>Environment</i>	<p>To promote respect of the environment and commitment to international environmental agreements, such as the United Nations Framework Convention on Climate Change and the United Nations Convention on Biological Diversity, and regional conventions, such as the UNECE Convention on the Protection and Use of Transboundary Watercourses and International Lakes, in order to foster sustainable development, with particular emphasis on stepping up cooperation on climate change and the marine environment. Environmental issues should be integrated into and mainstreamed in all sectors.</p> <p>Activities in this area should consider existing programmes, such as the Northern Dimension Environmental Partnership.</p>

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