

Russia's relationship with the rest of the world



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Will Russia be able to live without European Union?

Even before the invasion of Crimea started, Russia and European Union did not have a good relationship which had resulted in many heated disputes. However, after Russia annexed Crimea, conflicts have become more complex and serious. Many Russian citizens who are pro-kremlin, after the annexing of Crimea became even more euro-skeptical and demanded Russia to Cut the ties with Europe and start cooperating with Asia, so they could utilize all of the benefits that such great economy could offer. Russia would benefit politically too, because countries in Asia do not particularly focus on the human right issues. The Europe or Asia topic has been discussed in Russia for centuries and this, for Russia, seems like a suitable moment to re-orientate towards Asia. But even if Russia would want to re-orientate to Asia market, would it be possible for Russia to isolate themselves from the European Union. There are a lot of arguments that oppose this Asia plan.

First of all, it is demography. Since the collapse of the Soviet Union, when Russian citizens got the taste of the western culture, the Russian society started to become more pro-European. The population in the closest regions to Asia has decreased[1] · [2]and that is poor because those are the regions that should play a key role in the cooperation with Asia. There are many reasons for people to leave Eastern Russia. The subsidies for working there are not as big anymore, the climate is bad and the salaries are just bigger in the western region of Russia. A significant part of Russia's population has been born in the European side of the Russia, i. e. Moscow, Saint-Petersburg, and because basically it is Europe, one could say that those Russians have been born and raised in Europe.

Secondly, the current Russia's economic structure makes the efforts to isolate themselves from European Union practically impossible. Since 1998 Russia has always had a positive trade balance.[3] They have been importing a lot of stuff from Western-Europe.[4] Data from Trading Economics about year 2012 tells us that Russia's imports reached 245 billion dollars of which 65% were various tools and transport mechanisms.[5]

While Asia's role in Russian imports has increased from 23 per-cent in 2009 to 27 per-cent in 2013[6] and Europe's part has decreased by 5 per-cent in the same time span[7], and it is probable that Asia's role in Russian imports will increase, still it would take decades until Russia transfers all its imports to Asia. But unfortunately for Russia, significant part of Russia's import from Asia is made by Japan, South Korea and Taiwan and these countries have close military ties with the United States of America.[8] So these three countries would probably follow the United States, if they tried to isolate Russia.

Even if Russia's government accepts the re-orientation from West to East, it would not be a solution to Russia's short-term problems with the European Union. At this time Russia and Europe are dependent on each other and cutting the trading ties would be disastrous for both sides. Europe needs Russia's natural gas and oil as much as Russia needs Europe's industrial tools. Of course, Russia can choose Asia to be its future partner, but right now it is Europe and Europe only.

Sanctions on Russia

It may seem that European Union and its allies are collectively agreeing on what and how harsh sanctions should be directed to Russia. But that is not the case. Harsh reality is that European Union cannot decide on sanctions against Russia because there are many Member States which oppose these harsh sanctions on Russia.[9] And those Member States who are not willing to introduce bitter sanctions include such influential countries as Germany and Austria. Europe's response to insurgency in Ukraine has been discreet and such cautious reaction has one reason - money. The trading volume between European Union and Russia has been humongous. With 9.5 per-cents from total trading volume it is the third biggest European Union's partner.

[10] According to data provided by European Commission, trade between European Union and Russia flourished in 2012. Such growth was mainly caused by a bigger import of energy resources. One of the energy resources that Europe is really dependent on is oil because the number of Europe's oilfields is reducing fast so Europe has to buy more from Russia.[11] As Russia is so dependent to the income from the gas exports[12], a complete cut-off is not in the conversation. Hence the pipes that provide their gas go through Ukraine, there are seven European Union member states which may be concerned about the natural gas cut-off, they are the three Baltic States, Finland, Hungary and Bulgaria.[13] Fortunately, even in the case of a natural gas cut-off, as the last winter was not as harsh, these member states will probably manage to deal with it because the storages for gas in these countries are almost full.[14]

Europe's trade is very unequal. There are few countries that make up the bigger part of exports and imports. For example, Germany exports to Russia

are valued in 39 billion euros[15]which is more than a third of European Union's exports. By exporting industrial tools and machines to Russia, Italy has earned 11.5 billion Euros.[16]Netherlands exports to Russia make up 8 billion euros.[17]These three countries are responsible for roughly 60 percents of European Union's exports.

Crisis influence on external politics is best seen in Italy. Italy is one of the countries in active opposition against harsh sanctions on Russia. This matter is as supported by society as it is by Italy's government. Instead of pushing sanctions against Russia, Italy is concentrating on beneficial-to-both-sides cooperation. Looking back at the history between both of these countries, they have never had any serious disagreements, so their neutral stance on Russia is understandable. And of the three most influential sanction opposing countries Italy has the most fragile economic situation, of course, Germany's and Austria's economic situations are not entirely stable, but they are not as fragile as Italy's is.

There will always be disagreements and different views at problems in the European Union since some countries are better off than others. For example, Scandinavian countries in comparison with southern Europe countries. Each country has its own problems which are in most cases primary to European Union headaches. It is possible that after some decades European Union will be a full union and the current disputes between European Union member states will be no more than a distant memory.

Russian sanctions on Latvia/Europe

After three waves of sanctions that Europe, United States of America and other countries placed on Russia, on 7th of August Russia published their economic sanctions. Prior to that Russia had only sanctioned certain American and Canadian officials. When describing Russia's embargo influence on country's economy, Latvian Ministry of Finance said " The influence of Russia's sanctions will be moderate", they continued " Today's published sanctions concerns only 4. 6 per-cents of the year 2013 exports to Russia or 0. 2 per-cents of the GDP ..." and they added that the loses would be roughly 50 million euros.[18]Intellectual society says that Ministry of Finance is downplaying it and that the embargo by Russia will be much tougher to bear with. In fact Latvia is one of the top four countries which will be hit the hardest by these sanctions. All of the four, Finland, Lithuania, Estonia and Latvia are Russia's border countries. In these countries twenty-six per-cents of all the food exports go to Russia. To make the numbers little more understandable, in the United States of America it is 0. 9 per-cents, in France it is 1. 25 per-cents and in the United Kingdom it is 0. 7 per-cents. As NATO and its allied countries raised these sanctions against Russia, they should be the ones that take care of these four countries which got hit the hardest by the counter-sanctions from Russia. NATO should make its member states open their markets to Finland's and the Baltic States goods. And for Latvia it is not only those 26 per-cents of food export to Russia mentioned previously. A significant part of exports to Lithuania should be counted in as loses caused by the Russian sanctions, as Lithuania is only a transshipment place for goods that need to be taken to Russia. If the exports to Lithuania which is really addressed to Russia gets added, the hit gets even harder, not only for the food industry but for the transportation industry too,

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because all the shipments to Russia got cancelled for the embargo. The estimated loss for the transport industry is 70 million euros. And the packaging company's shouldn't be forgotten too, because someone needs to pack all the food that gets exported to Russia and now, because of the embargo, packaging companies will suffer too. And hence the workload in these companies gets smaller, they do not need as many workers, so Latvia has to prepare itself for a sudden rise of the unemployment rate in the country. It has already happened in one of the four countries - Finland. Finland's biggest dairy product's producer *Valio* laid-off eight-hundred workers that worked in factories which produced products for export to Russia.[19]It is only a matter of time for Latvia's biggest dairy product company *Food Union* until it starts letting people go. Since a half of the production is normally exported to Russia, such actions are inevitable.[20]

In its embargo Russia has yet not included preserved fishes. However the fish processing companies are already worried, because two thirds of all the fish products made in Latvia are preserved fishes and almost all of the fish processing companies in Latvia are one hundred per-cent exporting.[21]In mid-August Russia's Federal Fishing Agency already proposed its Ministry of Agriculture to include in the embargo preserved fishes.[22]If such proposal gets accept and preserved fishes really do get included in the Russian embargo Latvia can count another fifty million euros in loses. Fish processing industry provides more than five-thousand families in Latvia, and in some places is even the biggest job provider in the city, for example, Salacgriva. [23]If preserved fishes get included in the embargo it can lead to another emigration wave by all of the laid-off workers. In the worst case scenario

cities that rely solely on fish processing industry could just get abandoned and slowly die out.

In these circumstances European Union should get involved and allow protectionism in countries that get hit by the embargo the most. Then countries could announce that fifty per-cent of all the dairy, meat and fish products in the stores must be made in the local market. Therefore, the companies will no more have to sell their products barely for the cost or just throw them out. Of course, such action is outlawed by Article 34 TFEU for discriminating imports,[24]but in these times when companies are struggling because of the Russian embargo and European Union sanctions, and families are left without their main money provider, European Union should deal with the consequences of their actions and allow protectionism of the local goods.

But these under-risk companies are not just simply waiting for something to happen. They are taking the matters into their own hands by unionizing. For example, in Latvia milk processing, meat and fish products producers unions have merged into a single one and it is called the Food Exporters Union. It is led by Didzis Smits (Schmits). He is responsible for lobbying Latvia's sprats producing technology which is a great achievement. Food Exporters Union's goal is to protect food producers interests and to make the dialogue with the government much easier. It will definitely help with obtaining new markets. The big target must be Asia. Establishing contacts with Asia is difficult for a single company, it would be expensive and time consuming. But that is a different case for a union. Currently Latvian food exports to China, added together with Estonian, that are our partners in business with China, only makes nineteen million euros.[25] · [26]To accelerate the growth of this <https://assignbuster.com/russias-relationship-with-the-rest-of-the-world/>

number Latvian Minister of Agriculture Duklavs and Estonian Minister of Agriculture Padars are working together and are actively involved in talks with China.

In such crisis situation Latvia should learn from Finland. Finland has been very efficient in reorienting their local companies, which export to Russia, to new markets. And that is because Finland has its own Minister of Export Development. Finland's southern neighbors Estonia has already taken a lesson from Finland and in this spring appointed Minister of Export Development. Latvia should learn from their northern neighbors and after the next election which is this fall should appoint their own Minister of Exports.

The winter of 2014/2015 will be one of the economically hardest winters in recent time. As it is clear that sanctions will continue, Latvia has to have a plan for companies to get through the winter. Latvia has to make strategic moves to let State capital flow into private companies, so at least some don't go bankrupt. "Latvian Plywood" is a good example. "Latvian Plywood", a private company, got saved by a State joint-stock company "Latvian State Forests". By buying stocks in "Latvian Plywood" State saved one of the biggest companies in Latvia.[27] "Latvian Plywood" is now working with profit of eleven million euros and its 2013 turnover was 187 million euros. [28]

Of course, a State should not be going around and saving companies everywhere. But in these circumstances such interference by a State is necessary. A State has to encourage producers to survive through these

tough times and keep its workforce. For example, the money made in the sale of a Latvian bank “ Citadele” could be invested into Latvian food producers companies, which would at least guarantee safety for food industry.

Entering a new market

Since Latvia has already started talks with China, they should concentrate specifically on Asia’s market. Latvia is such a small market so there should not be a problem with finding a place in Asia’s market for the Latvian struggling companies.

China’s market

China plays an important role in international trading system. And that should not be a surprise because Five years ago China was still the world’s third largest economy behind the United States and Japan[29], but now as it has consistently been in the top countries when it comes to economic growth[30]it has passed Japan and now is the world’s second largest economy with their GDP standing at about seven hundred and fifty billion euros, which is two times larger than Japan’s GDP.[31]Since the foreign exchange reform in 1994[32], China is continuously expanding its foreign exchange market. As they opened-up to the rest of the world after having reforms[33], China has witnessed a massive development of their economy. [34]In 2001 China joined the World Trade Organization. Such action made the Chinese market more opened up. As this membership did not give much advantage in their already conquered markets, it did open up a lot of new markets to China. After joining the World Trade Organization China removed

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restrictions on textiles and garments “... which allowed China to become the largest exporter of clothing and textiles in the world as the labor-intensive sector capitalized on its comparative advantages of abundant labor.”[35]Right now China is developing their border policy, they are working on a quota and license free trade. After China joined the World Trade Organization, it has drawn the attention of more and more foreign investors. In December of 2013 Foreign Direct Investment reached more than nine hundred billion euros. For comparison, at the time they joined the World Trade Organization it was less than forty billion euros.[36]Another great thing about Chinese market is that 1.35 billion people live there, that is one fifth of the planet’s population. From the exporters hit by sanctions view China’s population is almost ten times larger than Russia’s. Asia’s largest country is very open to international trade. “ Total Chinese trade (exports plus imports) amounts to 70 per-cents of its GDP, which compares to 37 per-cents in the United Kingdom and just 20 per-cents in the United States. China’s trade-to-GDP ratio is all the more remarkable given that one of the main determinants of this number is country size – large countries typically have low shares of trade in GDP (for example, the united States compared with the united kingdom)”.[37]Of course, it not all perfect, and there are things that scare people away from China’s market. Firstly, it is the often disputed matter at summits – China’s market access. Already there are firms that decrease the amount of their investments in China, and the main purpose of that is the limited market access. As the American Chamber of CommerceChairman Greg Gilligan put it “ We refer to market access barriers as one of the primary reasons for lowered investment,”[38]he also added that “ With slower growth, our member companies do not reflect less need

for investment, but perhaps less need for investment based on the old economic model that was more reliant on exports and infrastructure spending.”[39]Secondly, it is the imperfect legal system in China. They are in need of developments on laws that administer markets. China has been working on it since joining the World Trade organization. They already are trying to eliminate protectionism, which is common in China. One of the projects Asia’s largest country is working on is to give more freedom to foreign banks, because “ Although foreign banks have operated in China for two decades, their role remains extremely limited. In 2005 they accounted for only two per-cents of Chinas total banking assets,”[40]and to add to that they have a one new branch per year restriction for banks.

As a distant country with a neutral stance on Europe’s and Russia’s conflict they are taking advantage of such circumstances. After all of these waves of sanctions, there are a significant amount of large and not so large economies that are in trouble and in need of a new trading partner. Not finding one would mean a bankruptcy for large companies and people losing jobs. China is more than happy to welcome so many new trading partners. One might say that this is an ideal situation for China, because a significant amount of money that was previously flowing between Russia and Europe will now circulate in their market. One of the most talked about deals as a consequence of Russia- Europe conflict is a three hundred and fifteen billion euros natural gas contract between Russia and China.[41]For Russia the deal strengthened the relationship with China and in this situation when Russia’s relationship with the United States and Europe is worsening, Putin really needed this. By maintaining neutral position China can gain a lot more than

it already has. Another beneficial thing for China from Ukraine's invasion by Russia is the now much more tense relationship between Russia and the United States.

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