The Impact of the Global Financial Crisis on Russia’s Cooperation with the Countries of EurAsEC

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ABSTRACT

The article considers the impact of the financial and economic crisis on Russia’s cooperation with the EurAsEC countries. Because crises are an integral part of any economic system, a deep analysis should be carried out. We consider the integration at the micro level and prospects of Russia’s cooperation with the EurAsEC, the prospects for cooperation between Russia and the EurAsEC countries should be assessed in different ways. Speaking about the cooperation it should be noted that the main weakness of the countries dependent on the prices of natural resources, which are the main export of all countries, including Russia. After all, the raw material orientation determines the country’s place in the world. And so the main task here is to develop the production of finished products and the development of knowledge-based industries.

Keywords: EurAsEC Countries, Financial Crisis, Problems of Cooperation, Economic Globalization

JEL Classifications: H12, F63, F65, G01

1. INTRODUCTION

Economic globalization is not just a convergence of the economies of individual countries, and the change of qualitative characteristics of the economy. And a single economic structure transformed from closed systems.

Crises are inherent in any developing system in all spheres of life, including political and economic. In modern conditions of globalization crisis acquired a global character and affect the national economy and socio-political development of a large number of countries. This economic crisis is the reduction in production volumes of the real sector, the growth rates of unemployment, including hidden unemployment, falling living standards of the population, the growth of crime, not the implementation of a state’s social obligations. The financial and economic crises are an integral part of the economic system can be either destructive or constructive, recreational function.

Despite the fact that in the last decade, the international community set up mechanisms for the prevention of global crises (strengthening state regulation of economic processes, the creation of international financial institutions, monitoring, etc.). The cyclical development of the market economy will inevitably cause a new crisis. This once again confirmed the beginning of the modern global financial and economic crisis, the first wave of which was held in 2007, and now there is a strengthening of the economic recession.

In the Russian Federation, these processes cause a significant fall in gross domestic product (GDP). Fluctuation in exchange rates, the fall in oil prices have a negative impact on the economy. The
deterioration of relations with the West in relation to the events in Ukraine, the introduction of economic sanctions have an additional negative impact on the national economy.

States are the main actors of the world of political cooperation. However, some non-governmental factors act as full partners of States and their competitors. At the global, regional and national non-state actors partially assume the execution of the functions that were previously entirely monopolized by the state. Strategic management of global processes is based on the interaction of the UN, the EU, BRICS, NATO, WTO, NATO, CSTO, the IMF, OPEC, the International Standardization Organization, Red Cross, and others. They provide local control of certain areas and affect specific elements of foreign policy. An important role in the activities of international organizations also play data multinational corporations, large domestic companies. Each of these entities has its place in the structure of the global political and economic structure. Changing the balance of power between these organizations is a potential threat to the stability of international relations (Russia and the European Union, 2010).

In relations between many states manifested international order regression, change of partner relations between Russia and Western Europe, the United States.

US foreign policy is also aimed at “low intensity conflicts,” as corrosion affects many countries. Currently significantly aggravated the contradictions between Russia and the United States. There is growing pressure from Canada, Norway, for the rights to the “energy.” This is particularly evident for example, competition for resources in the Arctic.

A feature of the present international political cooperation is also a “factor of small countries” as “the state - provocateurs” trying to cause a worsening of relations between powerful nations and benefit from their conflicts and confrontations.

A special role in crisis management processes play a global and national elite. An important aspect is the gradual disappearance of the psychological barrier against the war in the thinking of both the elites and the general public that, with a sharp aggravation of the military situation, can bring to the mutual destruction of the nuclear powers and the rest of the world. This is a big threat to national and global security.

According to some experts, the unification of world markets may lead to the cancellation rates (respectively, the dollar and the euro) with the transition to a new transatlantic exchange. This will allow instantly lose all debts denominated in dollars and euros, and start a new economic expansion.

In such circumstances, Russia is forced to oppose US policy in the international arena. The target guideline of our country is a multi-polar world and the equal and mutually beneficial cooperation between the two countries. In such circumstances, the value of Russia’s political elite is further increased. In the conditions of modern globalization, in order to strengthen its role, developed countries committed to achieving information superiority over the counter-partners, which, among other things, involves the activation of various types of information attacks. To neutralize these threats and ensure Russia’s competitiveness in today’s information competition requires a comprehensive approach, including regulatory and legal aspects of the improvement of organizational and personnel matters, technological modernization, ensuring information security and intellectual elite and society.

The government is taking measures that have been used previously, as well as new anti-crisis program as appropriate in order to exit the crisis and further development. In this case the emphasis is on implementation of competitive foreign policy to ensure a favorable world order for Russia to mutually beneficial partnerships between countries.

The special attention given to the issue of increasing the share of state ownership in the financial sector. The state has to intervene in the financial sector, where there is a threat of such a large-scale crisis, with a gradual return of independence to the private sector. So, there is an ambitious program of import substitution and development of Russian technologies.

At present, the ongoing global economic crisis is forcing companies in all sectors of the economy to find ways to survive (Silnov and Tarakanov, 2015). These circumstances actualize the need to improve the conceptual issues of process control output of the crisis of modern Russian companies.

Today, the world stands on the threshold of the sixth technological order. Its contours are only beginning to take shape in the developed world, especially in USA, Japan and China, and are characterized by focus on the development and application of high technology, “high-tech.” This biotechnology and nanotechnology, genetic engineering, membrane and quantum technology, photonics, micromechanics, fusion energy, and others. Synthesis of achievements in these areas should lead to the creation of, for example, a quantum computer, artificial intelligence and, ultimately, provide access to a brand new level of functioning governance systems, society, economy (Nosova, 2006; Oleinkova et al., 2016).

Currently activated Russia’s cooperation with organizations such as the EAEC, SCO, CSTO, APEC, BRICS and others, as opposed to US influence. International political and economic competition appreciably moved to Central and East Asia area, the scope of common military and economic interests of Russia, China, Pakistan, India and Iran. In many areas effectively developing cooperation in the spheres of economy, trade and technology between Kazakhstan and the Russian Federation.

The current stage of development of Russian foreign policy towards the People’s Republic is characterized by co-operation on a number of different areas, including contracts and agreements at the highest level, humanitarian ties, trade and economic ties, diplomatic cooperation (for example, the UN Security Council), participation in international organizations SCO, BRICS and others. In May 2014, during the visit of Vladimir Russian President Putin in Shanghai, signed “Joint Statement of the Russian
Federation and the People's Republic of China a new stage of relations of comprehensive strategic partnership of cooperation.” Work continues on the development and strengthening of the Eurasian Economic Union, the state whose members are Russia, Armenia, Belarus, Kazakhstan, Kyrgyzstan. May 25, 2015 in the free trade zone with the countries of the Eurasian Economic Union entered Vietnam (Center for Economic Analysis under the Russian Government, 2000).

It should be noted that in these circumstances the Russian political elite has to bear the real responsibility for the historical destiny of the country, to be the guardian of the fundamental core values of Russian society, serve as a moral example for the bulk of the population. The special role of these aspects become in modern conditions the unfolding global financial and economic crisis. At the same time, in accordance with the modern theory of crisis management is needed shift in emphasis from the process to prevent crises and deal with crises (according to the traditional theory of crisis management) to consider the crisis as a necessary stage of socio-political and economic development of the country. From that will the political elite to respond adequately to these challenges, the future of Russia and its geopolitical perspective (Nersesov, 2009).

Structure of the supply of the EurAsEC member states represented on Table 1 and Figure 1.

Trade in services is also characterized by a tendency of growth, mainly due to the provision of transport and travel services. It becomes more attractive for Russian investments in EurAsEC countries, with about 60% of them are directed to the energy sector.

In recent years, Russian trade with EurAsEC countries had a clear upward trend. Given the structure of trade turnover in the coming years we can expect to further increase the volume of trade. In the last year of the forecast period, a specific value may be the commissioning of the gas pipeline to Germany under the Baltic Sea, which can increase the volume of Russian exports and the amount of the active Russian trade balance. The efforts of the EurAsEC countries to diversify external sources of energy is unlikely to be in the period under consideration affect the demand for Russian gas, oil, etc.

In the construction of the forecast should be taken into account as unfolding in EurAsEC countries, regulatory reform of the energy market, consisting in the divestiture of the national electricity and gas monopolies and the separation of energy producing, transport and distribution structures. The result may be some reduction in domestic energy prices and the liberalization of access to the end user that can create conditions for an additional volume of gas supplies and possibly electricity, as well as Russian investment growth in the electric industry EurAsEC countries.

Speaking about cooperation between Russia and the EurAsEC countries cannot ignore the call of the investment. Sufficient weight can be increased investment in the manufacturing sector that drags along the import of components for the new production and in the longer term - the formation of export-oriented production (Nersesov, 2009).

Before the crisis, Russia experienced a boom in foreign investment, until recently was considered impossible. The complication of the situation in global financial markets, caused by the mortgage lending crisis in the United States had practically no effect on the level of foreign investments in the Russian economy. Another round of global financial crisis that followed the bankruptcy of US bank Lehman Brothers and the fall of confidence in the largest US insurer of AIG, coupled with the growth of political risks associated with a military crisis around South Ossetia, led to a massive outflow of foreign capital from the domestic stock market and a critical drop in stock indices. However, macroeconomic indicators of the Russian economy and the fundamental characteristics of the Russian companies gave no reason for panic. As the market goes portfolio investors. At the same time, the strategic foreign investors are still interested in Russian assets. Moreover, if we use the terminology of the stock exchange, this interest is evident not only in the “hold” strategy, but also in the strategy of “Buy” (Joya, 2015).

The reasons for the investment boom are obvious: Foreign investors attracted by political stability, high economic growth and an increase in purchasing power. Increased state influence in the economy and high levels of corruption, of course, played a deterrent role, but big business has adapted to the rules of doing business in Russia. The most important factor in determining the activity of foreign investors is that investments in the Russian economy - one of the most profitable.

The global financial crisis has already led to an increase in the cost of servicing the debt; annual payments are estimated at 40-45 billion dollars. Today it is obvious that the global financial crisis is developing according to pessimistic forecasts. All countries are taking extraordinary measures to maintain monetary liquidity and stabilize the domestic financial systems. Active steps in this direction is taking and the Russian government. It should be noted that:

Table 1: Structure of the supply of the EurAsEC countries

<table>
<thead>
<tr>
<th>Name</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Machinery and engineering products</td>
<td>36</td>
</tr>
<tr>
<td>Chemical products</td>
<td>14</td>
</tr>
<tr>
<td>For finished products</td>
<td>11</td>
</tr>
<tr>
<td>For transportation equipment</td>
<td>10</td>
</tr>
<tr>
<td>Live animals and food</td>
<td>7</td>
</tr>
<tr>
<td>Other</td>
<td>22</td>
</tr>
</tbody>
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Figure 1: Structure of the EurAsEC countries
1. Russia has no such gap between the financial and real assets, do not have those bubbles that are now “bursting” in the US and some European countries.

2. In Russia, unlike most Western countries, there is a very solid currency reserves, which can be used for short-term support of the domestic financial market.

This makes it possible to predict that after a relatively short period of panic, investors are aware of the fundamental attractiveness of Russian assets and the process of flight of foreign capital will change their return.

In recent years, revealed a steady growth of Russian investment abroad. Information on their quantitative parameters is very contradictory.

2. INTEGRATING MACROECONOMIC AND PROSPECTS OF COOPERATION BETWEEN RUSSIA AND EURASEC

In the sphere of economic relations between Russia and EurAsEC noticeable new and very important trend - The development of joint long-term projects of Russian and European companies, the establishment of a unified multinational production chains, i.e. integration at the micro level. This micro-economic integration takes different forms: The emergence of common processes, which enterprises in different countries are responsible for the separate stages of production; trade in parts and components; coordination of marketing strategies and production processes, the exchange of assets, etc. At a minimum such forms of cooperation increase the level of confidence in the business environment. At most, they are able to generate “demand” side of business on macroeconomic integration, the approximation of legislation and the removal of barriers on the borders.

Such transnational production chains is already there. Leaving aside the energy sector, where an exchange of assets has become commonplace, we present some of the most important examples of the industrial production sector (Bokov et al., 2011).

EurAsEC countries should deal with the simultaneous rise of the economies of most of its new members:

- High-tech and knowledge-intensive production in the EU core (Germany, France, Great Britain, Italy, the Benelux countries, Austria).
- Narrow industrial specialization on imported raw materials in the CEE countries; supplying raw materials and energy Russia.

This scheme is objective, based on the realities of the optimal allocation of resources and the proximity of industrial plants to consumers and by itself cannot be considered a plan of economic enslavement of Russia. But Russia, such a scheme is not profitable. Avoid it (i.e., to prevent service of the Russian economy in CEE industrial centers) and enter one of the fastest growing industrial states - a strategic goal of the Russian leadership.

This is the Western countries will remain the main sources of investment in the Russian economy, necessary for successful completion of the period of the country’s reform and maintain production at current levels. In the interests of Russia - the spread of “investment preference” area on its territory. Because it is not directly derived from the existing programs for the development of transport corridors, failure to achieve this goal undoubtedly cause damage to the economic interests of Russia.

3. PROBLEMS WITH RUSSIAN COOPERATION OF EURASEC COUNTRIES

In the face of globalization processes Russia in a difficult position. With the current state of the economy, it cannot claim to be a leader in shaping global economic policies that affect the activities of international economic organizations. But on the other hand, Russia is quite deeply drawn into the world economy. The share of exports in GDP is about 27%. But the one-sided orientation of Russian exports of raw materials makes this dependence vulnerable due to large, global prices fluctuations. In this connection, joining in the globalization processes, Russia, like other countries, cannot take care of, and the participation and cooperation with integration groupings.

It should be borne in mind that the need to expand economic space arises when at a certain stage exhaust domestic possibilities for economic development that the transfer of the economic sovereignty of supranational governance structures suitable only when it gives a greater economic effect than the effect, while maintaining the sovereignty of that integration. It gives an additional impetus to stably developing economy countries, but by no means is the key to solve all internal problems of development of the national economy. In many ways, this is why the most consistent integration processes take place in the European community, which unites the most developed countries of the world (Nersesov, 2009).

But Russia’s cooperation with the countries of EurAsEC encounters some problems. Russia claims to the EurAsEC countries concerned:

- Proposals for the conduct of dialogue with Russia in the framework of the “New Partnership” - A unified plan of cooperation with the neighboring states, which puts Russia at the level of the North African States.
- Unresolved issues of carriage of goods and passengers between the territories.
- Attempts to resist foreign influence the preservation of Russia.
- Claims EurAsEC countries to deal with Russia.
- Understated domestic energy prices compared with world prices.
- Charging Russia compensation payments to European airlines for the use of non-stop trans-Siberian route.

Russian politics are facing in the European direction with a rather difficult challenge. Its essence - the need to find a balance between the real demands of the Russian economy modernization and, in many ways, society, and, on the other hand, the inability of
the EurAsEC countries to offer Russia even limited forms and mechanisms of joint decision-making in the framework of the integration process.

That is why at this stage for Russia, it may be appropriate to restore the balance between the political and the economic and legal components at equal cooperation of independent subjects of international relations. In the future, Russia could consider the formal accession to the integration association, which, after experiencing a phase of stagnation, will replace the European Union.

In its policy of EurAsEC countries were forced to take into account the position of those countries whose relations with Russia have been problematic. Also EurAsEC country deliberately evaded the discussion of a number of fundamentally important security issues (Silnov, 2015). During the formal words that it is a matter of bilateral US-Czech/Polish relations, Wing EU’s inability to develop a common position and unwillingness to create an additional factor of irritation in relations with the United States. There was some disagreement on the issues of economic cooperation, were fairly heated debate about the principles of regulation in the energy sector.

### 4. CONCLUSION

Russian prospects of cooperation with the countries of the EurAsEC member states must be assessed in different ways.

Speaking about cooperation, it should be noted that the main slabo-dependence on the prices of natural resources, which are the main export of all countries, including Russia. After all, the raw material orientation and defines the place in the world today. And so the main task here is to develop the production of finished products and the development of knowledge-based industries. All participants in one way or another depend on each other, and this relationship can wrap the benefit, if the understanding and respect for independent policy of each of them, even to a desire to refocus on the foreign economic relations of CIS countries.

The global financial crisis has become a serious challenge for the economy of the EurAsEC countries and their financial systems. He drew the most important internal system problems, errors and mistakes in economic policy. At the same time, the crisis has forced the management of the community to reconsider their attitude to the mutual monetary and financial cooperation, its untapped opportunities to mitigate the impact of external financial and economic shocks. Countries came to the turn of the new monetary and financial cooperation when they have a real chance to catch up in the pre-crisis years, to make real steps towards the consolidation of mutual ties, which will benefit all the participants.

Russia still remains for other countries of the community a center of attraction, which has increased due to the crisis. If the EurAsEC countries do not want to preserve their economic backwardness and to keep up with the restructuring of the world economy based on a new technological cycle, their economic policy will focus on the modernization and strengthening of the financial system and ensuring the stability of the national currency. Achievement of these goals will largely contribute to the monetary and financial cooperation, which, as shown by international experience, is a prerequisite for improving the efficiency and competitiveness of the economy.

A significant difference of Russia’s economic potential and other EurAsEC countries makes the difference in the objective interests of the parties in the development of regional trade and economic cooperation.

For Russia as the most powerful country of primary interest - geo-strategic and geo-economic, the implementation of which is stretched over time and requires a clear sequence of actions. Partners predominantly see their interest in maximizing the ongoing benefits of obtaining various kinds of subsidies (direct and indirect), and preferential access to the capacious Russian market.

It should be noted that in all countries of the Community Russia markedly inferior in terms of direct investments to other foreign investors.

For the development of mutual cooperation of the community is fundamentally important to the transformation of the ruble into a regional reserve currency. Of course, this problem cannot be resolved by decree. The ruble may become a currency of only relying on a powerful modern economy and financial system of Russia, which has yet to be created. The most important condition for the functioning of the ruble as a reserve currency is to create a diversified economy, a developed financial system, to ensure international confidence in the ruble on the basis of its transformation into a full-fledged national currency of Russia, not so much dependent on oil prices and the dollar.

The strengthening of the international status of the ruble, the financial potential of Russia and the development of economic cooperation of the EurAsEC countries is intended to contribute to the creation in our country an international financial center. Creating MFC - a large-scale system design, effectively means the reform of the financial system. It can be realized only when the organic conjunction with the development of the economy as a whole, since it is impossible to improve the financial sector in isolation from the development and modernization of the real sector.

The necessary conditions for the creation of the MFC are the introduction of a mega-regulator of financial markets, Russia’s accession to the International Organization of Securities Commissions, which assesses the level of stock market regulation in each country and on the basis of these assessments to establish foreign invest funds restrictions on working with local stocks. From participation in the organization depends on the extent of the purchase of Russian securities by foreign investment funds.

### REFERENCES


