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An economic community from Lisbon to Vladivostok

The lessons from the financial crisis: how Russia and the European Union could create a common continental market

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by Vladimir Putin

Today it is obvious that the triggering of the global crisis in 2008 was not only caused by the explosion of 'bubbles' and unsuccessful financial market regulation, but was structurally determined. The core problem lies in the accumulation of global imbalances. The model whereby one regional centre unrestrainedly accumulates loans and consumes goods, while another produces cheap goods and buys up debts has failed.

Furthermore, distribution of the created prosperity was extremely uneven, both among different countries and among individual strata of the public, thus eroding the stability of the global economy, fanning a flare-up in local conflicts and impeding the global community's willingness to reach a consensus during debate on acute problems.

The crisis frequently made it necessary to undertake reappraisals, consider risks and to reflect on further development, whose foundation should be moulded by real, and not virtual, values. People are currently tackling the establishment of such post-crisis strategies in all leading centres, including in the US and China. Europe also needs visions for the future. And so we are proposing to model this future jointly through partnership between Russia and the EU. By doing so we could assert our claim to success and the best competitiveness in the modern world together.

We should openly admit that both Russia and the EU have proved to be quite vulnerable economically. We were shown this very clearly by the crisis. As in the past, Russia is highly dependent on the raw materials economic-cycle. The European Union has harvested the fruits of its longstanding de-industrialisation and faces the real danger of a weakening of its positions in the industrial and high-technology

goods markets. A problem of a trend-oriented lag in some areas of education, research and development looms jointly for us and the EU. I can add that the current state of cooperation between Russia and the EU overall is clearly no match for the challenges which we are facing.

To turn this situation around, we must exploit existing real advantages and possibilities both in Russia and in the EU. A genuine harmonised synthesis of the two economies (a classic proven economy in the EU and a new ambitious one in Russia) could be created as a result and mutually offer us inherently good complementary growth factors

We have modern technologies, natural resources and investment capital. We are blessed with our people's unique ability to perform. Finally, Russia and the EU can count on previously acquired experience of cooperation that must be taken seriously. I am pleased to be able to note here that Germany, which acts as the driver of European integration, is also showing genuine strong exemplary leadership in this area. So what do we propose?

Firstly, the establishment of a harmonized economic community from Lisbon to Vladivostok. In the future a free-trade zone or even advanced economic forms of integration might come onto the table. In effect, this would create a common continental market, whose capacities would be worth billions of euros. But evidently the first thing is to remove all remaining impediments to Russian accession to the WTO. A standardisation of legal and customs provisions as well as sets of technical rules would then follow, but the implementation of projects that should eliminate bottlenecks in the pan-European traffic infrastructure would also be on the agenda.

Secondly, a common industrial policy, which would be founded on an amalgamation of Russian and EU potential technology and resources, but which also contains the implementation of joint assistance programmes for small and medium-sized entrepreneurs operating in the real economy. Trademarks such as 'Made in Germany' and 'Made in EU' are genuinely worth money. These models of optimum technological culture should be treated as cautiously as possible. They cannot be allowed to disappear. So many recognised labels do not exist in Russia yet. But we wish to modernize our companies consistently and in the process to widely use European technologies which show the broadest possible compatibility with our production culture and our traditions. From my viewpoint, the question of how we can allow a new wave of industrialization to roll over the European continent must be put on our common agenda, especially so that strategic alliances can be forged in shipbuilding and aircraft construction, car production, space technologies, medicine and the pharmaceuticals industry, nuclear energy and logistics, etc.

Please understand me correctly: this thesis is anything but a call to change Europe back into a single large production platform, a type of giant factory, as we know from recordings made at the previous turn of the century. It should become a high-tech permeated industry of the post-industrial era. New production centres should be

pollutant free and strictly adhere to high environmental protection standards. In general, this means keeping the focus of attention on everything linked to ecology, considerate use of natural resources and control of climate change. Russia and the EU have already had very positive experience in this area. Just remember our cooperation in protecting and regenerating the marine environment in the Baltic Sea.

Thirdly, the idea of a joint energy complex in Europe is literally knocking on the door. In recent years, cooperation between Russia and the EU in the energy sector became a topic that drew a lot of attention and, to be frank, became overly politicised. The situation went as far as people alleging that Russia wanted to use its crude oil and natural gas supplies to solve political tasks, which obviously had nothing to do with the reality. The truth is that Russia lost direct access to its biggest export markets after the collapse of the USSR. This led to problems with transit countries, which unilaterally endeavoured to gain advantages from their monopoly position. Well-known disputes lie rooted here. Of course this situation was neither in the interests of Russia nor of customers for our energy resources.

This is precisely why many European energy suppliers and numerous European governments, including the German federal government, supported Russian plans to build gas pipelines through the Baltic Sea North Stream and the Black Sea South Stream. After these gas pipelines enter service the European continent will acquire a diversified, flexible natural gas supply system. For me, there is no doubt that all of the artificial problems in the energy sector will then be a thing of the past.

Our ability to learn to view our mutual strategic interests in deeds, not in words, is decisively important. But this cannot be said to apply to the logic of the EU's third energy package. Even with all good intentions, it creates major risks for the energy industry and weakens investors' willingness to invest in new projects. As a result, instead of enjoying the advantages of a competitive market, we may be faced with a dilapidated infrastructure, a scarcity of energy and sources of energy and therefore higher prices for European consumers in a few years from now.

It should be recalled that the poorly thought-out liberalisation of the financial markets was a decisive contributory trigger of the financial crisis. It certainly cannot be convenient for anyone that a breakdown of controls in the natural gas sector may trigger a new crisis, but now in the energy sector. I am convinced that life itself is forcing us back towards establishing equality-based, balanced relationships between suppliers, consumers and energy-resource transit states. The establishment of such relationships is the intrinsic direction of the new energy treaty promoted by Russia. By pooling our efforts we obtain the option of not only dealing with energy resources, but also of exchanging assets and cooperating in all phases of the technological value creation chain –from exploration via production of energy resources up to deliveries to end consumers. Moreover, we are calling for cooperation in staff training for the energy sector and the development of engineering centres and the

implementation of projects in energy efficiency, energy saving and the exploitation of renewable sources of energy.

Fourthly, no progress in European education and research is possible without developed industry. Talented young people are already deciding much less in favour of technical professions (and that applies both to Russia and the EU). They see no future for themselves as engineers or skilled workers and opt for other specialisations, which sometimes demand a lower qualification. It would really be the last straw if development consultancies and engineering firms were to decamp and leave our continent after production centres.

European science and education must secure their leadership positions. This is feasible through close partnership. Russia will continue to invest in pan-European research projects such as the construction of the X-ray laser in Hamburg and the accelerator centre in Darmstadt. We are prepared to offer European colleagues research opportunities in Russian higher-education institutes and scientific institutions, including in the framework of special assistance programmes.

Furthermore, there are good opportunities to work in unique pilot plants in Russia. For example, a giant plant for neutron research, based on a nuclear plant near St Petersburg, will soon enter service. In return we hope for contributions to Russian science and innovation infrastructure. The example of the Siemens group, which has stated that it is ready to found an in-company competency centre in the innovation city of Skolkovo near Moscow, is inspiring in this regard.

Of course, we would also have to support the development of student, professorial and lecturer exchanges, and contacts between junior researchers and specialists. We want students from Russia to go to universities in the EU and for our part we are prepared to open the gates of Russian universities wider for young people from European countries. Academic mobility, reciprocal studies visits and other forms of exchange are therefore so immensely important, because they are very helpful in developing a uniform technological and corporate culture.

Fifthly, a genuine partnership will remain impossible on our continent as long as human and commercial contacts are impeded. The biggest disruptive factor here is the existing visa requirement between Russia and the EU. From our viewpoint the introduction of a visa exemption should testify to the beginning and not the conclusion of genuine integration between Russia and the EU. Our young people, school pupils and students will first and foremost benefit from freedom to travel. They will then meet new opportunities for travel, education and familiarisation with the unique cultures of different countries.

The removal of the visa requirement will also eliminate a serious impediment to extending business activities. Today visa requirements do not represent a problem for large companies, but they are quite an inconvenience for small and medium-sized enterprises, the innovative firms. Ultimately, the existing far-from-perfect structure of

our economic relationships is preserved as a result. Finally, the specification of deadlines and an exact time plan for introducing a visa exemption will make it possible to improve cooperation between our states' law enforcement authorities and to proceed more effectively together against illegal immigration, the drugs trade, organized crime and terrorism. But the prospects for this are still muted. Law enforcement authorities are simply not being offered sufficient incentives to resolve the technical problems that arise from the introduction of the visa exemption.

I have only outlined the plan to extend the real partnership between Russia and the EU in broad strokes. The main question which now arises is whether the European Union would be ready for debate and practical work on such an agenda. Despite all of the existing misgivings, I believe that the outlined approach is gaining an increasing number of supporters in the European Union.

The path to this goal will obviously be taken in stages and take quite some time. As partners with equal rights, Russia and the EU will each have to travel their part of the road to each other. However it is also obvious that this work cannot be postponed and time cannot be wasted through diplomatic formalities that do not wish to reach an end.

It should be emphasized that Russia has no interest in a weak or disunited European Union, because Russia's international influence would therefore be indirectly reduced, and our possibilities of relying on a partner that represents similar mutually agreeing interests would contract. The rapprochement between Russia and the EU cannot be directed against anyone and does not demand any weakening of relationships with traditional partners and allies. We could anchor the renewed principles of our collaboration in foundation treaties between Russia and the EU, which are currently being worked on. We must tackle this treaty work with a strategic approach. We should try to think ahead for 20 to 30 years and even 50 years.

To conclude may I recall: in 1990 German chancellor Helmut Kohl made a very brave decision: not to wait until the GDR was ready to become part of a unified Germany, but to unify without delay, so that the East and West in Germany could relearn to become familiar with each other and to resolve common tasks for coexistence. History ratified the correctness of such a resolute step. Today, in new historical circumstances, we are offered the opportunity to build a unified, prosperous Europe. If we set ourselves this objective, designing compromises for practical issues will be much simpler.

Some may describe the thoughts outlined in this article as too ambitious. But in today's world what initially only appears dreamlike also becomes possible. We have been able to convince ourselves of this several times together. It is now plainly and simply a matter of rolling up our sleeves and tackling the job in hand.