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## INTEGRATION AND REGIONALIZATION OF THE MODERN ENTREPRENEURIAL ACTIVITY: CHALLENGES FOR RUSSIA AND EASTERN EUROPE

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### Abstract

*Integration in the world trading system fundamentally depends on whether policies and institutions are established in a country and its trading partners which are conducive to the mutually beneficial exchange of goods and services based on specialization and comparative advantage. Trade integration processes became more active after 1950s in all over the world. Today the separate country is not more able to control the competitive struggle between enterprises and countries, new spheres of competitiveness on the traditional markets. Effective integration of the economies in transition thus, involves not only their own trade policies and institutions but also those of their trading partners which affect market access and the terms of trade.*

**Key words:** *Entrepreneurship, integration, regionalization, Russia, EU, CIS, Eastern Europe*

### Introduction

The place and role of any country in global market depend on many factors. Basic of them are level and dynamics of national economic development; openness degree of the national economy; character of its participation in the international economic relations and others.

The basis of the integration process develops at a microlevel as mutually advantageous cooperation of the concrete companies, banks, financial and industrial groups, their joint investment projects, creation of the transnational enterprises.

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## Methodology

Words “economic integration” was first used in 1930s in the papers by German and Swedish economists. The most known theory at that time was “the theory of large spaces” established by the German historian and economist K. Schmidt. He pointed on the increased weakness of the traditional national countries in the process of economic development in XX century and suggested the idea to create the large “geospaces” as the new, more perfect and large-scale subjects of international relations.

International economic and trade integration is the process of consolidation of different elements of national economic systems, the highest stage of the modern economic internationalization. This process is followed by the interstate development based on the special agreements and its own structure, represented by the different administrative bodies and over national independent organizations.

Nobel prize winner, Dutch economist Jan Tinbergen defined economic integration as the “creation of the most favourable structure of international economy, reduction of artificial barriers in its activity and implementation of necessary elements of coordination and unification”. It highlights two main ideas. First, before the beginning of any integration processes it is necessary to clearly determine their goals and understand the structure of international economic and trade relations that is optimal for integrating countries. Second, any integration process consists of two kinds of measures: “negative”, which assume the abolition of old and non-effective institutions, reduction of restrictions and barriers in trade or migration of production factors; and “positive”, connected with creation of new unified rules and standards.

## Discussion

The historical and economic analysis shows, that Russia (USSR) went through five stages in its interaction with global economy:

1. Stage 1. 1917-1945. Political and economic isolation.
2. Stage 2. 1945-1985. Cooperation with other socialist countries (“socialist camp”).
3. Stage 3. 1985-1991. Disappearance of socialism as political system.
4. Stage 4. 1991-2000. “Building the capitalism”.
5. Stage 5. 2000 - present time. The economic pragmatism.

Europe was always one of the major priorities for Russian integration. It is caused by a great number of reasons: historical, political, and economic. Europe was always the main source of the foreign investments to Russia, Russia always used the newest science and engineering achievement from Europe. For this reason in the Russia external policy in 1990s the role of European direction has essentially increased.

European Union today is one of the three main industrial, financial and trade centers of the world. It is especially important for the European part of Russia, where basic part of the population and manufacture are concentrated.

EU is the basic trade partner of Russia. Its share in Russian trade turnover is 35%. Up to 60% of all foreign investments come to Russia from the EU. Though the

share of Russia in the EU foreign trade is only 3,5%, Russia provides up to 20% of gas and 16% of oil to EU. Also Russia is the main importer of the European agricultural products.

The long-term development strategy of the EU-Russia relations includes the cooperation in such spheres, as:

- structural and industrial policy;
- conversion of military manufacture;
- environment protection;
- scientific potential;
- information technologies.

In 1997 was submitted the Agreement on Partnership and Cooperation (APC) between Russian Federation and European Union. This Agreement is directed on creation of the necessary conditions for gradual Russian participation in the European cooperation. The Agreement determines:

- 1) trade regime for goods and services;
- 2) the conditions of the business activity, capitals and labour migration;
- 3) the basic directions of the economic cooperation;
- 4) the general legal frameworks of cooperation in various industries, including raw and mining, energy supply, agriculture, construction, standardization and certification, the realization of the concrete industrial projects.

At the same time, this Agreement has the negative restrictive regime for Russian export on a number of important commodity groups (black metals, textiles, uranium fuel and agricultural production).

Because of the EU expansion and integration to the EU of East European and Baltic countries the Russian export to the traditional for our country markets can decrease (in particular, export of mineral fertilizers, chemical products, agriculture products). There is still the practice of antidumping procedures for Russian products.

Russian export to EU includes oil, gas, raw materials and other low-processed products.

The important stimulus for the development of the mutually advantageous cooperation between Russia and EU is the creation of the legal environment by the unification and rapprochement of the Russian and European legislations. The EU legislation of EU meets the international requirements, in particular, WTO rules. The rapprochement of the legislations will push the Russian businessmen to the necessity of the flexibility and fast adaptation to the conditions of the European market. Also it will speed up the structural reorganization of the Russian economy.

Alongside with the development of the trade relations Russia supports the close connections with the European financial markets, with banks and other credit organizations. There are Paris and London Credit Clubs, and Russia participates them, and also there is the European Bank for Reconstruction and Development. The West-European investors are active enough on the Russian market.

The relations with the CIS countries are the special problem for Russian integration processes. Last years the traditional trade relations with the CIS countries weakened because of the orientation of the Russian trade flows to the West Europe and USA.

In the beginning of the 1990s the share of the Eats European and CIS countries in Russian export was 60%, in import – 40%. In the middle of the 1990s their share decreased to 15,4% in export and 16% in import. The main reason of this decrease was the aspiration of Russian businessmen to export their production to the West Europe and USA and to get the hard currency. At that time the contract prices with CIS countries remained much below the global prices.

The markets of CIS countries are the traditional zone of influence for Russia and more favorable conditions for the competition with western producers. And also for the CIS countries Russia is a very attractive trade partner. It is determined by the significant economic potential of our country, cheaper mineral resources, the high level of industrial and trade integration, technological interdependence of the enterprises.

The integration process in the frameworks of CIS started in 1993 with the Agreement on creation of the Economic Union. This Agreement provides the legislative base for the gradual deepening of the integration process through a number of stages:

- creation of free trade association,
- customs union,
- common market of the goods, services, capitals and labour.

The Economic Union assumes:

- free moving of the production factors
- coordinated credit, budget, tax, price, external, customs and currency policy.
- the national legal regime to the businessmen of the participating countries,
- the assistance to their direct economic relations,
- the creation of the joint enterprises, transnational associations
- the coordinated investment policy, including the joint capital investments and attraction of the foreign investments and credits.

In 1995 was submitted the governmental program on deepening of economic integration with the CIS countries. This program determined the main directions of the economic interaction with CIS:

- 1) trade;
- 2) the currency and credit policy;
- 3) joint activity, including joint investment programs;
- 4) the activity of the interstate economic structures.

Nowadays there is the active process of the construction on the basis of CIS the economic and trade union of four countries: Russia, Belarus, Ukraine and Kazakhstan. It is supposed:

- to create the organization of regional integration on the basis of the free trade union,

- to unify the budget and tax policies, and also other branches of economic legislation.

The creation of this union will:

- facilitate the trade process between the participating countries,
- increase the competitiveness of the national producers on the common integrated market,
- allow to unify the foreign trade legislation
- form the economic basis for closer interaction of the participating countries on the EU example.

Another way of the development of integration process in the frameworks of CIS is the creation of the united state of Russia and Belarus. The free trade regime between these countries was established in 1992. On the basis of the Agreement on Customs Union there was created the customs regime which assumes both free trade regime and joint protection of national economies. The development program also includes the development of custom infrastructure. It is very important for Russia, because the western borders of Belarus will be the customs border of Russian Federation with EU. Unfortunately, in the last 2 years the Russia-Belarus integration process stopped because of the political and economic reasons.

East Europe is also very important region for Russia. These countries are the former members of the Council for Mutual Economic Assistance (CMEA) – Czech Republic, Bulgaria, Hungary, Poland, Romania, and Slovakia. The share of these countries in the Russian foreign trade decreased from 38,7% in 1990 to 15% in 2005.

This decrease of the foreign trade is followed by the deterioration of its commodity structure. The share of oil, wood, aluminium and chemical products increase. The significant part of import from these countries is agricultural products, though the share of machinery and equipment in import from Hungary, Slovakia, and Czech Republic is 40%.

Today the East European countries lost their role of the main Russian economic and trade partners. However the revival of the economic cooperation between Russia and the East European countries meets the interests of both sides. In future Russia can become the significant investor to the economy of the East European countries.

Also there is the interest from East European countries to invest in Russia. And of course Russia has a great capacious market and a grate potential for the development of trade relations with East Europe.

### **Estimation results**

Today the successful integration of our country to the global market depends on the several factors:

- 1) the results of the Government activity on improvement of the national economy, its structural reorganization and transition to the market conditions;

- 2) the creation of the effective legislative, organizational and technical preconditions for the economic development.

Russia can enter the integrated global trade system only on the basis of conditions which suit our country from the point of view of economic safety, do not interfere with carrying out of those structural transformations which will provide to it a worthy place in the world community.

Even at the insufficient degree of reduction process regulation of the custom duties the further trading negotiations under the Russian accession into WTO should concentrate on the decision of two basic problems: on liquidation of a tariff dispersion and restriction of tariff escalation. It is natural, that the agreement on priority decrease of high custom duties that will help to solve a problem of a divergence in tariffing levels various products should be accepted. It will limit the countries in an opportunity of an establishment of higher protective measures on the priority goods for itself.

For maintenance of really liberal and equal character of international trade it is still required the carrying out of many trading negotiations rounds. But all the same the significant part of work on creation of the free global market is already made. Further it is necessary only to improve the main principles of integrated global trade system and adopt them to constantly varying conditions of modern economy.

## **Conclusions**

In the 1990s Russia was in the extremely difficult situation. As a result of the radical economic reforms the country was rejected on some decades back, while the majority of other countries quickly advanced. If USSR occupied the 2nd place after USA on GDP, in 1998 Russia was on the 12th place, after, for example, China, India, Brazil and Mexico.

Today Russia is deeply involved in the global economy. The share of export in its GDP is about 27%, even more than in Germany, France and Italy. Russia already became the country with the open economy. But the Russian export consists of energy resources and raw material. Due to the orientation on the external market these branches (oil, gas and metals) remained competitive, while other branches, especially machinery production, decreased in 2-3 times.

The status of the high-developed country in the modern integrated world is impossible without the structural changes in the Russian business. The national economy should be based on the powerful integrated corporate structures, first of all financial and industrial structures, capable to compete on internal and global markets with the leading transnational corporations.

Within the framework of the complex integrate strategy of TNC the capital flows (direct investments) and trade come together. There are diverse connections in production sphere: between the headquarter company and its foreign branches, between different branches of the corporation, between various TNCs and their branches or any other companies. The international trade becomes the reflection, the consequence and the stimulus of these connections.

Such new scheme has a number of differences from the former scheme of international trade. According the former scheme, the production was focused within the national economy, and then the products went abroad to the external markets, where they competed with the products from other countries. Nowadays this situation changed; there is the competition of the TNCs on the global market.

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