

## **Economic Ties as a Source of Conflict or Cooperation? The Case of Russia-EU Relations**

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Liberal IR theories claim that countries co-exist more peacefully the more they are interconnected. The research agenda of the “capitalist peace” (Weede 2003) more specifically states that market interests prevent conflict and foster cooperation, as they favor commerce and interaction and demand a cooperative foreign policy from policy makers. Economic factors such as free trade, foreign direct investment and shared economic institutions are thus viewed as sources of peace and political cooperation.

Against this background, recent Russia-EU relations present a puzzling case. On the one hand, there are close economic ties: (Western) Europe is the most important market for Russian energy exports; European companies have invested in Russia and have for a long time viewed it as a promising market. In the wake of the 2014 events in Ukraine and the following deep political crisis in Russian-European relations, business relations as a form of people-to-people links were frequently put forward as a promising basis for de-escalation. On the other hand, however, the current state of Russia-EU relations suggests that this economic cooperation has neither been able to prevent (political) conflict, nor is it free of conflict itself. Mutual economic sanctions, conflicts over energy cooperation in general and recently and more specifically over the Nord Stream 2 pipeline project or an increasingly difficult investment climate for the European business community in Russia demonstrate that economic relations can be a source of conflict rather than rapprochement.

This paper aims to contribute to a better understanding of whether, under what circumstances and how economic ties can lead to peaceful or conflictual relations between countries. It first reconsiders the extensive literature on liberalism in IR that may help explain the dynamics in economic cooperation between Russia and the EU. It then discusses current trends by looking at 1) energy cooperation, 2) FDI and business people-to-people links in Russia (with a special focus on the German business community as an exemplary case) and 3) mutual economic sanctions. The findings suggest that economic interests and ties have at times indeed contributed to a less conflictual stance in both Russian and EU

members' foreign policy. However, strong linkages between economic policy and other policy fields have produced significant conflicts of interests (for instance, in the case of energy supply which is seen by the EU as both an economic and a security issue). Under these conditions, economic ties have even contributed to an escalation of existing political conflicts as they could be used as leverage by both sides.