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**BREXIT REASONS – LESSONS FOR RUSSIA**

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*Abstract*

The process of globalization has led to global competition, and the growing disintegration may be the response. Brexit is a particular case of possible disintegration of the European Union. The article presents causes analysis of spatial problems of the European Union. It is shown that the implementation of any model of international economic integration in the integrated space will provide a rich center and form a less developed periphery. Countries of the core of the integrated space are forced to bear political and economic costs for the development of periphery countries. The logic of the study goes from clarifying concepts of "international economic integration and disintegration" to identifying causes of possible disintegration processes in the integrated space. On this methodological basis, a comparative analysis of the spatial functioning of the European Union and the Eurasian Economic Union is carried out. Subjects of any integrated space face the problem of harmonizing their economic and political actions and maintaining a certain level of national isolation. It is very important for the Eurasian Economic Union to choose a model of international integration, as members of the Union are at different stages of economic development. The most effective model of integration is the model of step integration. In this case, the spatial expansion of the Union with the accession of new entities with a status below the level of full membership is possible. Prerequisites for disintegration trends can be: constant spatial expansion, reducing the permeability of borders, the creation of strong supranational structures.

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## **1. Introduction**

The crises of European integration stimulated theoretical research. Scientists working in the European Union are reproached for being ill-prepared for the analytical understanding of the mechanism of decay that provoked Brexit (Rosamond, 2016). The reason is that integration theories were developed before the crisis of 2008 and are not able to reflect the current disintegration challenges facing the EU. (Webber, 2014) This gave rise to a dualistic approach to the analysis of integration in the EU: either as a unique phenomenon in international relations or as a pattern of inter-state political and economic relations. (Farrell & Newman, 2017; Newman, 2018). Analysis of the discussion on the causes of disintegration processes also revealed two main approaches: political and economic causes of possible disintegration are endogenous (Vollaard, 2014) or exogenous. In English studies, the causes of the crisis of European integration are considered from the standpoint of various theories, while not taking into account the space-time factor. For Russian studies, it is important to answer the question of the legality of the use of the experience of European integration in relation to the integration processes in the space of the Eurasian Economic Union (EAEU). Most regions of the world remain poorly integrated politically, so the European Union is a unique laboratory for countries that have embarked on the path of integration.

Russia has extensive experience in creating integration unions, from the Council for Mutual CMEA to the Eurasian Economic Union. In the future, the EAEU can provide a synergetic effect for its participants, while it is important not to repeat the mistakes of integration in the EU space.

## **2. Problem Statement**

The creation of multi-level integration unions should be accompanied by clearly understood possible negative trends in their functioning. Knowledge of negative trends makes it possible to smooth their effects at the stage of formation.

## **3. Research Questions**

The study should answer the following questions:

- 3.1. The possibility of using the EU integration experience for the EAEU countries
- 3.2. What factors affect the limits of spatial expansion of integration unions
- 3.3. What theories of integration can be the basis of the integration process in the EAEU.

## **4. Purpose of the Study**

The aim of the study is to identify the prerequisites and causes of possible spatial changes of integration associations with the participation of Russia.

## **5. Research Methods**

Answers to these research questions are possible on the basis of a combination of methodology of two scientific areas – spatial theory and the theory of international integration.

5.1. The methodology of the New Economic Geography (NEG) (Krugman 1998; Fujita, 2010) was used to implement the goals and objectives of the study. The main provisions of the theory of the NEG allows the evaluation of any created space from the point of view of sustainability.

5.2. It is reasonable to consider the processes of integration and disintegration as a genetically unified process in the spatial theory

5.3. The analysis of the causes of possible disintegration is carried out taking into account the main provisions of the theory of international economic integration: as a nonlinear process, as a special form of international socialization of production.

## 6. Findings

### 6.1. The dilemma of integration and disintegration

Global processes i.e. processes of world interaction, mutual influence and interdependence do not automatically mean the need to create any form of integration Union. Economically successful Australia, Korea and Japan are not part of the broader trade bloc. The absolute benefits of integration have not been proven (Shiff & Winters, 2005). In the world economic community there is no common theory of international integration. Existing theories of international integration view the process from different perspectives (Hooghe & Marks, 2019). At the same time, the theories of European integration provide little to solve the problems facing the European Union today (Jones, 2018). European integration was primarily a process of creating a market that removes barriers to free trade and international economic competition (Kriesi, 2009) However, as early as 2014. Weber (2014) stressed that the existence of the European Union is very conditional. The EU is very vulnerable to the effects of inner political change (Weber, 2014).

Modern realities of the European Union urgently require clarifying the relationship between the categories of "integration" and "disintegration" and to identify the causes of possible disintegration. European studies of the integration –disintegration relationship are presented by two main points of view: either these are paired categories where the transition of integration into disintegration depends on a decrease or increase in the level of centralization or membership in the EU (Schimmelfennig, 2018; Börzel, 2018); or disintegration is not the reverse side of integration (Vollaard 2014). In some works, disintegration is seen as an unpredictable and open process rather than as a predetermined outcome (Rosamond, 2016).

There are endogenous causes of Brexit - the ever-growing expansion of the European Union (Weber, 2014), the weakening of border control, the decrease in the congruence of borders and the increase in their permeability (Vollaard 2014), the creation of a powerful supranational organization. Exogenous causes include the economic crises of the last decade, the impact of previous integration on transnational interdependence and supranational institutional capacity (Schimmelfennig, 2018). We can agree with the research of Johnson, emphasizing the cumulative theory of causes (Jones, 2018).

The reasons for Brexit and the prospects for an integrated Union should be considered taking into account the space-time factor. From the point of view of spatial economy it is reasonable to consider the processes of integration and disintegration as a genetically unified process.

The causes of disintegration trends lie in the very process of international integration. The process of international economic integration is contradictory internally and therefore cannot develop in a straightforward and progressive manner. In the process of integration it is possible to change the the

integrating system goals. Developed international economic integration can be considered as a special form of international socialization of production within the new integrated space. In turn, the integrated space will be characterized by processes of endogenous asymmetry, catastrophic agglomeration and spatial hysteresis (Ottaviano & Thisse, 2004). The practice of functioning of the existing integrated spaces is full of examples of manifestation of the named regularities. Differences within the EU are growing exponentially (Vobruha, 2004). It is important to emphasize, that the more heterogeneous the integrated space in the economic sense, the more likely the manifestation of these laws. Initially, the EU consisted of 6 States, now - 28, in addition, five are candidates and two are potential candidates. The space of any degree of integration will inevitably be characterized by the division into the countries of the center and the countries of the periphery. There is already a manifestation of endogenous asymmetry in the EU space – the countries of the so-called "new periphery" are singled out. Differences in wealth create difficulties for the countries of the centre, as the problems of the periphery tend to affect the countries of the centre as well. From the point of view of the spatial structure, the rich core States of the EU are objectively interested in expanding the space through the development of the poor periphery. But the EU experience shows that as the Union expands, the costs of integration increase. The situation will become more evident if the number of members of the Union increases. Britain's exit from the European Union and the potential desire of other countries to perform a similar action illustrates the manifestation of the effect of spatial hysteresis as a prerequisite for a spatial catastrophe.

## **6.2. Integration as a manifestation of coordination and isolation**

The high degree of interstate economic integration is based on the process of production's international socialization, that is, the process of coordination of separate elements of the economy. As a result, economic ties between countries are being optimized, norms and rules are being harmonized and appropriate institutions are being established. There is a need to create an integration Union (Zobova & Mukhamedieva, 2008). Thus, interstate economic integration is effective when it is based on an objective process of production's socialization, and not only the political interests of the state. In the foreign scientific community do not use the term "international socialization", but actively use the term "interdependence". If we consider the interdependence of sovereign economies as a result of coordination (i.e. socialization of production), we can equate these categories with a certain degree of tolerance.

The history of European integration testifies to the formation of transnational interdependence. In 2016, 43.4% of UK exports came from the EU and 53.3% of imports came from the EU. The interdependence of the financial market, transnational interdependence and supranational potential have increased significantly. (Schimmelfennig, 2018) In other words, a certain level of financial and industrial socialization (harmonization) has been achieved in the EU.

The threat of economic collapse is a powerful deterrent to hard disintegration (Hooghe & Marks, 2019). The problem of the UK is in the desire to remain part of the single market, but at the same time formally preserve its sovereignty. The UK as a member of the European Union is influenced by two opposing trends: transnational interdependence and political supranational potential (Saurugger, 2016). For many EU countries, the problem has been the mismatch between national issues and the need for subordination to supranational governing bodies of the organization. The internal contradiction of

international integration is clearly manifested as a contradiction of the need to harmonize economic and political actions and the preservation of a certain level of national isolation.

### 6.3. Integration in the Eurasian Economic Union

Since 2000 a new stage of integration in the former USSR began. The Eurasian Economic Community (EurAsEC) was created to form the Customs Union and the Common economic space. In practice, there was a contradiction between the economic and political need for integration within the Eurasian space and the possibility of its implementation. Therefore, in 2015 The Eurasian Economic Community was transformed into the Eurasian Economic Union (EAEU) in order to modernize, cooperate and improve the competitiveness of national economies. For the successful functioning of this Union, it is necessary to take into account not only the experience of the EurAsEC, but also the integration experience of the European Union.

The main problems of integration in the EAEU space include significant differences in the economic potential and structure of the economies of the Community States, different rates of market reforms. Objectively, Russia is interested in expanding the borders of the integration Union. But also, objectively, it should be ready to bear the cost of maintaining the economy of the less developed member countries. World experience shows that economic growth and the reduction of uneven development are incompatible.

Currently, the Eurasian economic Union is implementing a model of concentric circles, while the core of material well-being is allocated, beyond which the welfare decreases (Table 01).

**Table 01.** Economic situation of the countries of the Eurasian Economic Union

Country	GDP per capita, \$, 2017	Average monthly nominal wage, \$, 2017	Level of unemployment, %, 2017	Escalation %, 2017	Proportion of population, living for national poverty line %, 2015
Armenia	9647	368	17,8%	5,6	-
Belarus	18848	426	5,6%	10,6	5,1
Kazakhstan	26410	463	4,9%	5,3	2,7
Kyrgyzstan	3726	228	6,9%	8,1	32,1
Russia	25533	671	5,2%	5,38	13,3

EEC information portal  
[http://eec.eaeunion.org/ru/act/integr\\_i\\_makroec/dep\\_stat/econstat/Documents/householdincome\\_2017.pdf](http://eec.eaeunion.org/ru/act/integr_i_makroec/dep_stat/econstat/Documents/householdincome_2017.pdf). Date:11.02.2019

It is necessary to divide the countries according to the degree of readiness to participate in integration and not to force the process of expanding the economic space. The presence of observer countries requires an answer to the question of the quantitative limits of the integration agreement. A smaller number of participants in the project provide an opportunity to facilitate the establishment of institutions.

Within the EAEU, we cannot talk about the mutual dependence of the participating countries. Even among the countries that initiated the Union, there is an uneven dependence. Even more asymmetrical dependence is in the trade of Armenia and Kyrgyzstan from the Russian Federation (Table 02). Overall, the share of mutual trade in the EAEU was only 14.6% in 2018.

**Table 02.** The turnover between Russian Federation and the EAEU

Country-participant	Russian Federation (2015)		
	Share of trade turnover in the total volume of trade of the country	Including the share of commodity exports to Russia	Including the share of merchandise imports from Russia
Belarus	45,5%	37,8%	62,2%
Kazakhstan	19,9%	28,6%	71,4%
Armenia	26,9%	19,2%	80,8%
Kyrgyzstan	25,3%	8,3%	91,7%

A statistical overview of the countries-participants of EurAsEC.  
[http://www.eurasiancommission.org/ru/act/integr\\_i\\_makroec/dep\\_stat/econstat/Documents/Brief\\_Statistics\\_Yearbook\\_2016.pdf](http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/econstat/Documents/Brief_Statistics_Yearbook_2016.pdf). Date: 1.02.2019

The implementation of the model of concentric circles in the EurAsEC should be replaced by a model of step-by-step integration in the EAEU. It involves spatial expansion with the accession of new entities with a status below the level of full membership. In this case, bilateral economic ties of different degrees of integration are implemented within the created integration space. In addition to the five participants of the EAEU and five observer countries, six more countries (Singapore, Pakistan, Israel, India, China, Tunisia) expressed interest in participating in the EAEU. But the share of trade in the total volume of foreign trade of the Russian Federation is insignificant – from 12% in Mongolia to 0.4% in Singapore and Pakistan. Thus, the interest in integration is not mutual for Russia and potential periphery countries. The core countries will bear higher integration costs.

Along with mutual trade within the integrated space there are processes that affect the qualitative and quantitative certainty of the space. In the context of global competition there are rapid changes in the current structure of the international division of labor, deepening intra-specialization and cooperation of subjects. As a result, complementary structures of integrated economies should emerge. The desire to extract spatial rent forces integration entities to look for new business partners outside the existing integrated spaces. *The modern world economy is characterized by the formation of cross-border partnership in which there are interregional and cross-country clusters. In the EAEU, it is possible to create such clusters with the participation of both the Union countries and with the involvement of third countries. Complementary structures will enhance the competitive advantages of participants. At the same time, we must be ready to change partnership relations in the integrated space.*

One of the prerequisites for the possible disintegration of the European Union – uncontrolled flow of migrants. For Russia, in the context of demographic problems, the increase in the number of legal migrants is a positive process (Table 03).

**Table 03.** Balance of international migration (thousand people)

Country	2013	2017
Armenia	-24,4	-23,5
Belarus	11,6	3,9
Kazakhstan	-0,3	-21,6
Kyrgyzstan	-7,2	-3,9

Russia	295,9	211,9
EAEU Information portal <a href="http://eec.eaunion.org/ru/act/integr_i_makroec/dep_stat/econstat/Documents/householdincome_2017.pdf">http://eec.eaunion.org/ru/act/integr_i_makroec/dep_stat/econstat/Documents/householdincome_2017.pdf</a> Date: 11.02.2019		

Thus, step-by-step, multi-time integration within the EAEU and the accumulated own intra-regional experience will make it possible to avoid mistakes and problems of the European Union

## 7. Conclusion

Spatial theory and the theory of international integration using different terminology, make the same conclusions about the spatial structure of integration associations: the integrated space will inevitably be divided into center and periphery. The real policy of forming a certain integrated space on the basis of the experience of integration in the EU should take into account a number of fundamental points. It is necessary to calculate the benefits and losses from the expansion of the integration space. The countries of the centre bear additional costs to solve the problems of the periphery. The countries of the center of the integration space should adhere to the principle of "egoistic assistance", that is, to solve emerging problems in the space of the Union without allowing them to grow across borders. The goal of the integration Union should not be the creation of a Superstate with the loss of a certain share of sovereignty, as happened in the EU. It is also necessary to take into account the experience of the EU countries faced with the migration crisis.

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