

**RUSSIA AND EUROPE IN THE NEW ECONOMIC AND POLITICAL
LANDSCAPE: BETWEEN NIGERIA AND VENICE**

The swift and mind-boggling changes that have taken place in the world during the last decade have put the strategic, economic and cultural orientation of Russia into a new light.

If Russians traditionally chose between orientation towards the European way – modernization, individualism and freedom – or towards the Asian way, which was associated with traditionalism, collectivism and tyranny, now the choice is very different. It is between a democratic, but stagnant Europe, which is culturally important to most Russians, and the rapidly developing – although authoritarian or semi-authoritarian – Asia of China, Southeast Asia and India.

Only ten to fifteen years ago, after the ignominious collapse of Communism, it seemed that “history had ended” and that humanity was left with only one “shining path” towards a liberal-democratic capitalism. Now it is clear that there are several “paths” and that the Asian one looks at least as promising, especially for mid-developed countries – the category to which Russia still belongs in spite of its recent economic successes and the higher educational level of its population, which it inherited from the Soviet Union.

These tectonic changes, which have started or become obvious only recently, include the economic rise of new capitalist powers vis-à-vis traditional Western powers; the redistribution of world GDP from Europe to Asia; the strengthening of the authoritarian model of development as displayed by new successful nations compared to the traditional liberal democratic model of Europe and the U.S.; the weakening of the international power positions of Western powers; the redistribution of control over energy resources from consumer to producer states; the crisis of the traditional “Anglo-Saxon” ways of managing the international financial system; a general decline in international governance, especially in the security sector; the start of the proliferation of nuclear weapons; and a new consolidation of state and statism after a decade of liberal development and the weakening of state power.

Still more critical in the long-term is the traditional West’s declining moral and intellectual authority in defining the international agenda for the future. The West, especially the U.S., has made too many mistakes and used too much self-serving rhetoric. The new challenges naturally cause unease and suspicion in the Old West. Unable to acknowledge to itself the true reasons for its fears, it is trying to fight back.

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Russia has largely benefited from many of the above-mentioned changes. For the first time in history, the winds of luck seem to be blowing into Russian sails.

The resurgence of Russia's international weight has become especially evident against the background of the relative decline of the U.S. due to Iraq, and of Europe due to its common foreign policy along the lowest common denominator, temporary loss of direction and too swift expansion. The persistent destabilization in the Middle East has made Russia's voice carry even more weight. Even the growth of China has increased Russia's importance as a possible counterbalance, integrator or ally of the emerging superpower. The growing demand for fossil fuels and the ensuing rise of prices have made Russia look like an "energy superpower" – which is, of course, an oxymoron.

However, much of Russia's success was self-made. With Vladimir Putin, the country resurrected itself from being close to a failed state in 1998-1999. It has pursued mostly sound economic and financial policies. A great part of the country's economic growth is now generated by the non-oil and gas sector. Russia won – against all odds and predictions – a political victory against separatists and Islamists in Chechnya, although at a horrible price. It demonstrated the political will of its leadership and the resolve and unity of the nation.

Most people in Russia believe that the current tensions with the West are a result of the latter's dissatisfaction with Russia's new assertiveness. This is only partly true. Russia's resurrection and its persistent efforts to change the rules of the game, which were made during the years of its near-collapse and weakness, run against the West's present weaknesses and attempts to protect and restore its position. To use military lingo, "the counterattack has run up against a counterattack."

However, it has not yet become a systemic confrontation. It is a mutual adjustment that may deteriorate into something worse, although the Georgian provocation, which has been supported by many in the West, makes the start of a new Cold War much more likely.

Russia has become a symbol of many changes that are unfavorable for the West. Basically a European nation, Russia is seen as a part of an ascending Asia – a fast-growing semi-authoritarian state preying on the weaknesses of the formerly almighty West. It looks like a successful alternative model of authoritarian capitalism which provides relative wealth and a palatable level of personal freedoms for most people. Only a decade ago it seemed that Russia's energy wealth was to be put at the West's disposal. Now it is controlled by Moscow. An international beggar in the 1990s, Russia now has the third-largest currency reserves in the world.

It is true that Russia contributed to the tensions by dogged efforts to change the rules of the game set up when it was weak. Russia has made some awkward moves – like cutting off gas to Ukraine – and has often displayed arrogance, although that is understandable considering its past humiliations, yet unforgivable and ill-founded.

Now the period of Russian restoration is almost over. Moscow is satisfied with its new stature and influence and is ready to become a strong status-quo actor once again.

Moreover, Moscow understands that in spite of its boisterous self-praise Russia remains a relatively backward country with an obsolete and still decaying infrastructure, a fantastic level of corruption, and poor medical and social services. The economy still has to move to the post-industrial and post-energy export dependent stage.

Putin started with economic reforms, but inevitably drifted to the consolidation of political power. Propped up by the country's previous success, the new Russian President Dmitry Medvedev has put forth an agenda of profound modernization for the economy and society. Obviously, this is impossible to implement without economic and even political liberalization, and without close cooperation with the leaders of economic and technological growth – both in Asia and the West. Faced with geopolitical challenges, Russia would not be able to deal with everything unilaterally in the long term.

Today, the Russian ruling class seems to be content with the country's new might and prestige, knows its vulnerabilities and is still in a fighting mood. But it is also increasingly ready to cooperate. The question is whether the Old West is ready to do so. Hopefully, the ratification of the Lisbon Treaty and a gradual incorporation of “new Europeans” will open the way towards a more self-assured and more effective Europe. A new U.S. administration may lead to a process of withdrawal from Iraq, a revitalization of some U.S. soft power, and a more realistic, modernistic and multilateral foreign policy. But the Georgian provocation in South Ossetia shows the other way.

Among these changes, the less understood for Russia and in Russia is the rise of the new Asia. Most Russians have habitually looked at Asia with fear – which emanates from the Tatar-Mongol control of Russia six to eight centuries ago. That fear was transformed in the national psyche into the “yellow menace” of China, although the Chinese never invaded Russian territory – apart from short skirmishes along the borders – and are not known for a great history of territorial invasions unlike all the other great nations, ranging from ancient Greece, Rome and Persia to France, Germany or Russia herself much later on. The U.S. joined this club historically recently, but with gusto.

Indeed, the phenomenon of the new Asia generally is not accurately understood in the countries of Western civilization, including Russia.

First, there is no such a thing as “one Asia.” The term “Asia” is a creation of European culture and European political thought. Previously, in the view of Europeans, Asia only included the Middle East, Persia and India in part, which Alexander the Great was believed to have reached.

Now there are at least three Asias: the Shintoist-Confucianist Asia of China and Japan; the Buddhist India; and the Muslim Central Asia and Middle East, which in turn is divided into Shiite Iran – the successor to Persia – and the largely Sunni Arab world.

Second, the “Chinese” and “Indian” Asias have been developing at a dramatic pace in the last few decades. For many reasons, they have gained from the processes of globalization at this stage of global development and, most likely, they will continue to develop at fast – although possibly slowing – rates at least for the next decade, in spite of restricting factors and predictions of decline. The main reason for this growth is the huge resources of the increasingly educated, disciplined and relatively cheap workforce. China and India will continue to host the larger and increasing part of the world’s labor-intensive industrial production and – to a growing degree – the production of technologies and knowledge. I dare propose that in ten years many of the traditional industries in Europe and the United States will cease to exist. The production of consumer goods and household appliances has almost gone, now being followed by many machine-building industries, including even the auto industry. This factor is creating huge social and economic problems for the Old West and Russia as well. Competition is destroying a large part of the traditional goals of the middle class in the West, connected with production and services. I cannot see how Russia – with its already very expensive and small workforce – can compete with the New East, except in a very small group of industries – if we are able to identify them and provide timely support to them. We should forget about an industrial policy in the old sense of this term. Perhaps it is even good that we have never formulated it. Asian competition requires a basically new economic development strategy from Russia.

Third, the Asia of the Muslim Middle East is lagging behind – and will continue to lag behind – the West and behind East and South Asia for many reasons. Currently this gap is somewhat compensated for by the inflow of petrodollars into the region. Yet, the gap will keep increasing, bringing about tensions in relations not only with the traditionally rich West, but also with the increasingly affluent Orient. So the semi-mythical/semi-real “conflict of civilizations” is increasing not only along the Islam-Christianity divide, but also along the divide between the world of Islam and the worlds of Buddhism, Shinto and Confucianism. This divide is particularly graphically manifest between a fast-developing India and Pakistan, which is increasingly lagging behind.

Iran plays a special role in this new equation. It has slowly, yet relatively successfully, developed even before the oil boom. Now it has good prospects as well. Iran is traditionally described as a key country only with regard to its nuclear potential. Iran is a key country also from the point of view of prospects for the modernization of the entire “Greater Middle East.” The prospects of the whole of Asia depend on where it ultimately goes.

Fourth, all three Asias have been quickly getting rid of recent Western domination, Western approaches and traditional Western ideological postulates in the political, economic and social spheres. This is largely due to their economic boom achieved in recent decades despite the recommendations of the “Washington Consensus” and the International Monetary Fund. Yet, the new giants, which are freeing themselves from the Old West, are not going along an anti-Western path and are not quarrelling with the West; on the contrary, they are eagerly cooperating with it – especially as their success was largely achieved due to, and rests on, the

Western ideology of liberalization of international trade and investment flows, and their main trading partners – for now and for the foreseeable future – are Western countries.

Fifth, economic power, which has been flowing into all the three Asias – the Middle East should thank the breathtaking rise in energy prices – is now being joined by political influence as well. At the same time, Asia is the venue of the main sources of conflicts. These conflicts are brought about by the rapid and unequal redistribution of economic forces, and by the imperfect system of regulating international relations in the region. Recent years have made obvious the deep security vacuum around the Persian Gulf, heavily exacerbated by the U.S. fiasco in Iraq. Also, there is the increasingly acute problem of the possible nuclearization of Iran, and the Israeli-Palestinian problem which will not be solved in the mid-term. The greatest threat to continental and international peace is posed by a possible, if not a likely, destabilization of a nuclear Pakistan. If, heaven forbid, a new great war breaks out in the world, it will most likely be triggered by an attack on Iran or the explosion of Pakistan.

The situation is exacerbated by the growing rivalry for positions in the region on the part of the ailing West. The Europeans are largely trying – without much success – to build bypass oil and gas pipelines around Russia. The United States and its ally Britain have started playing the Big Game of the 19th century. The latest episode is the crisis in South Ossetia, which was provoked by Georgia – a U.S. client – and which took the lives of many hundreds of civilians, mainly Ossetians.

Finally, a few words about what Russia should do. The different-vectored nature of the development of the three Asias requires not one, but at least three strategies. Today, the “Asian challenge” looks totally different from what it was 700, 100 or even 15 years ago. It is only the challenge coming from the South, from Persian-Arab Asia, that is similar to the old one: this is a challenge of instability and involvement in rivalry with other powers. At the same time, this area not only poses threats, but also offers new vast markets and opportunities for energy investments and for coordinating energy policies.

But the challenge from the New Asia is of a basically new nature. This is no longer the threat of the “slant-eyed hordes” or the still existing disrespectful fear of millions of hard-working Chinese who are believed to be ready to colonize and annex Siberia or the Far East.

Today’s challenge is a quite real possibility for Russia to become a raw-materials – and later political – appendage of China, the great power of the future. For the time being, China’s development is not just much faster – due to Russia’s lack of a system and corruption, it is falling behind China by four to five percent a year – China is developing qualitatively better. It is investing huge amounts of money in infrastructure. China is paying much more attention to education than Russia and even many other European nations do. China is more and more confidently following in the footsteps of South Korea, which has already joined the ranks of developed countries – above all, due to its solid long-term investment in education and in efforts to improve the quality of human capital.

So the “Chinese threat” now looks different than it has been presented by former and current Sinophobes. Today the threat consists of falling behind and even becoming a marginal state due to Russia’s own inability to effectively develop and compete.

Another Asia-related challenge to Russia is its inability to use the new giant opportunities offered by new, fast-developing markets.

The problem here is no less difficult. Over the centuries of playing catch-up, Russia has become accustomed to taking its cue from the West – first from Europe and then from the U.S. Russia engages in mutual trade with these two regions and makes investments there. It is also where Russia hides its money for a rainy day.

The purchase of some tertiary company in Europe or in the U.S. is one of the benchmarks by which the success of almost any Russian super-corporation is measured. Even Gazprom and the Russian government that controls it offer asset-swapping only to Europeans, although capitals and companies in the East are growing much faster. Business journals provide plenty of examples of how enterprising Americans become billionaires by investing millions of dollars in China or Southeast Asia. But Russians are “special.” Russian trade with East and South Asia is growing only slightly faster than that with Europe, while Asian markets are growing very fast. Russia is not tapping all the possibilities.

Moreover, Russia has no strategy for tapping them. Russia is discussing the issue of increasing trade with China largely as a problem of Siberia and the Russian Far East. Meanwhile, China has become the biggest trading partner of the European Union. Naturally, relatively weak Siberian capital, which historically is tied to old commodity flows to and from China, cannot let Russia fully use the potential of that giant and fast-developing market. This is a job for the largest Russian companies based in Moscow, which probably should set up regional branches beyond the Urals, for example in Krasnoyarsk.

I have no complaints about Russia’s foreign policy in Asia. Russia is now present in the majority of regional organizations – or at least the Russian flag is flying there; stepping up activities within the Shanghai Cooperation Organization; and is playing a major role in the maneuvering over the nuclear programs of Iran and North Korea.

However, Russia is missing economic opportunities provided by a rapidly developing Asia.

I see the contours that Russia’s new Asian strategy must have. It must be global, not regional. Asia is now a global actor. Russia’s strategy must consist of three Asian strategies.

It must focus, above all, not on efforts to counter real or imaginary threats but on the use of new, primarily economic opportunities.

Finally, it must not be viewed as an alternative to European or Western orientation, as many often say or think.

There is no alternative to social or political rapprochement with Europe. Europe is the cradle of what is best in Russian civilization and the source of social modernization. Without Europe, we are not Russians; we will lose our identity.

Not so long ago orientation towards Asia and “Eurasianism” were associated in people’s minds with stagnation, backwardness and tyranny. Today, without an accelerated economic rapprochement with the “New West” – East and South Asia, we risk for ever remaining backward. We need a strategy for accelerated economic rapprochement with Asia, while preserving and developing our political, social and technological ties with Europe.

How can we solve the problem of the obvious discrepancy between these strategies? Only by developing Russians and Russian human capital. Only this will enable us not to fall apart and collapse, but to tap new, fantastic opportunities. Russia is now encircled by the “First West” in the west and the “Second West” in the east. This is a challenge; yet it is also a giant opportunity. If we use it, Russia will become a “Third West.”

Centuries ago, after the fall of ancient Rome and then Byzantium, or the “Second Rome”, Russian political philosophers and tsars proclaimed Moscow as the “Third Rome.” Their hopes never came true – just as later ideas never flourished about Russia’s Eurasian, or non-European nature, and about the special nature of Russian civilization.

Russia has no other choice than to become a “Third West” that would develop quickly and which would be more tied with Europe culturally, through civilization and, hopefully, politically, while economically it would be increasingly tied with Asia. Otherwise, Russia will simply be torn apart.

It must be said, though, that Russia has faced such a threat many times over many centuries, and has always survived – and sometimes even came out on top.