



## EXECUTIVE SUMMARY

Conference on

### **Russia and the future geo-political and geo-economic balance in Europe and in the world**

*15 April 2011*

*Maison de l'Europe, Luxembourg*

#### **Introduction**

In cooperation with the Russian State Agency for International Cultural and Humanitarian Cooperation (Russian Ministry of Foreign Affairs) and the Moscow-based Association for Euro-Atlantic Cooperation, the Luxembourg Institute for European and International Studies (LIEIS) convened a one-day roundtable on 'Russia and the future geopolitical and geoeconomic balance in Europe and in the world' on 15 April in Luxembourg. This event, which brought together around 25 participants from Russia and various other European countries, was supported by the Business Association Luxembourg-Russie and the Luxembourg Ministry for Culture, Higher Education and Research.

Since 2006, this conference was the seventh in a series of events on Russia in recent years organised by the LIEIS in cooperation with the Russian State Agency for International Cultural and Humanitarian Cooperation (formerly the Russian Center for International Scientific and Cultural Cooperation). The earlier seminars focused either on Russia's internal political and socio-economic development or on relations with countries in its 'near-abroad' and in the shared neighbourhood with the EU. Last year's roundtable discussed the nature and extent of links with China and the EU at the level of bilateral and multilateral ties. By contrast, this year's seminar explored Russia's place in the European and world economy with a special emphasis on the interplay of geopolitics and geoeconomics.<sup>1</sup>

The participants debated a wide range of issues. First of all, Russia and Europe in a global setting, focusing on a possible redistribution of key power assets as well as the rise and fall of countries or continents. Second, the role of Russia in European and global affairs, including actual relations and potential partnerships in the wider European space. Third, the major stakes for Russia and her role in the international system. Finally, prospects for 2050 and the place of Russia and the rest of Europe in the global geopolitical and geoeconomic balance (cf.

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<sup>1</sup> Reports on all the past seminars are available online at <http://www.ieis.lu>



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programme and list of participants in Appendix I). The discussions were chaired by Armand Clesse, Director of the LIEIS.

## **I. Setting the stage**

In his opening address, Alexander Shulgin – Ambassador of the Russian Federation to the Grand-Duchy of Luxembourg – expressed his gratitude to the organisers for bringing together a group of distinguished experts, especially Armand Clesse, Anatoly Adamishin and Anatoly Blinov. He also thanked the Business Association Luxembourg-Russie and the Luxembourg Ministry of Culture, Higher Education and Research for their support.

Ambassador Shulgin then turned to the topic of the seminar and stressed Russia's specificity in European and global politics. With the largest territory that covers parts of Europe and Asia, Russia is a Eurasian country that is "pursuing its special own policy towards Europe, the European Union and NATO". Special interests and unique features notwithstanding, Russia is and remains committed to close relations with European partners: "it is obvious that despite differences in the way of thinking, habits and way of life, the peoples of Europe have the same global tasks to solve". These include maintaining security, disarmament, the fight against terrorism and extremism (above all nationalism and neo-fascism) as well as the preservation of the environment. Meeting such and similar challenges requires cooperation between Europe's nations.

The 'common house of security' from Vancouver to Vladivostok that President Dmitry Medvedev has called for remains a top priority for Russia, and we are now seeing "step by step a successful development on the way to such a security architecture". Russia hopes that President Medvedev's idea of a Treaty on European Security will lead to dialogue and progress. However, it is also true that EU-Russia relations are characterised by a lack of common vision about how to cooperate in various policy areas. According to Ambassador Shulgin, "such cooperation is both desirable and useful, and could ensure that people have a better understanding and a feeling of security".

Yet at the same time, "the Russian proposals for the establishment of visa-free travel, which would enormously help to facilitate contacts in economic, cultural and many other fields, are still rejected by some EU governments". In spite of such tensions and difficulties, Russia hopes that closer commercial ties with the EU and membership in the WTO will strengthen the partnership with Europe. Meetings like this seminar can help clarify key issues and strengthen ties at the level of civil society and the expert community, the Ambassador concluded.

In his introductory remarks, A. Clesse said that there is currently much talk about revolutions, modernisation and democratisation. Linked to this is the perception of a shift in the global balance of political and economic power. But this raises more fundamental questions about the nature and the determinants of power, a sense of purpose and strategic vision. A new consciousness seems to be emerging that is not focused on national power but instead emphasizes global concerns – perhaps an intellectual and even a moral revolution in our thinking, though no one can be sure about the unfolding of events and the shape of things to come.

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## **II. Russia, Europe and the global setting**

The first session of the seminar focused on the global context and some of the key factors that are shaping the geo-political and geo-economic balance. Three introductory presentations – by Lothar Rühl, Anatoly Adamishin and Mark Almond – were followed by a lively discussion that revolved around the nature of power, the changing dynamics within the wider European space and Russia’s role in the unfolding balance.

Lothar Rühl began his presentation by saying that it was quite a challenge to respond to A. Clesse’s remarks because “I am no expert on morality or social ethics. In my experience, all human endeavour comes to down to physical factors”. When A. Clesse mentioned tectonic changes, L. Rühl said that he was reminded of Kissinger’s meeting with the then Chinese premier Zhou Enlai. Asked about the significance of the French Revolution, Zhou is reported to have replied that it was “too soon to say”. The serious point is that tectonic changes in geopolitics cannot easily be recognised or understood because they do not happen in a few months or years but unfold over decades.

The US has been weakened by a series of internal crises, above all a social crisis – even a systemic crisis linked to the obsessive pursuit of individual happiness at the expense of social solidarity. This has led to an excessive financing of real estate and the financial bubble that burst so spectacularly in 2008. But this is not just an economic crisis. The entire US system is at stake because it equates the good of the greatest number with general welfare – a utilitarian ethics that goes back to 18<sup>th</sup>-century Britain. Crucially, the US has become and remained a great power since the end of the 19<sup>th</sup> century but the Americans have failed to build a state that can exercise responsibility for the common public good. Examples include the irresponsible management of primary resources in North America, especially energy, and leaving social organisation to private corporations. Indeed, the rise of corporate power leads to crises and even possibly self-defeat. Paradoxically, we are seeing a powerful US military in a weak American society. This, coupled with a vulnerable economy and a demanding American nation, provides a context in which US politics and policy-making is largely determined by the doctrine of ‘small government’ and individual responsibility, said L. Rühl.

Even though the era of free-market fundamentalism is over, the direction of international change will be largely determined by the US – not Russia, China, India or the EU. The reason is two-fold. First, the US is the largest economy, with the highest levels of innovation, as evinced by the number of Nobel Prize laureates. Second, the US has greater military might than any other country in the world. China is catching up on the economic and the military front and has enormous potential, but it also faces many unresolved problems – chief of all the Communist Party’s inability to manage the expectations and demands of a vast population. Deng Xiaoping combined economic modernisation with political repression. Already in 1977 (in a conversation with Manfred Wörner, who at that time was Chairman of the Defence Committee of the German Parliament), Deng anticipated that China’s military upgrade would take at least 20-30 years. Lack of transportation and infrastructure are the greatest obstacles to the modernisation of the country’s armed forces, notably problems of mobility, flexibility and rapid deployment. China’s aspiration to world power is clear but whether Beijing will achieve it is uncertain, especially given its growing societal and political problems.



L. Rühl concluded his presentation by briefly reflecting on other parts of the world. India's booming population is dragging down the thriving elites who are impressive. The key challenge is how to give the masses meaningful and useful jobs. The same is true for much of North Africa and the Middle East: neither energy nor chemical industries need much human labour, but the masses are restless and demanding a clear improvement in their standards of living. Revolutions can only succeed when populations are proportionate to national resources (human resources in relation to material resources). Unfortunately that does not seem to be true for most countries that are currently experiencing unrest. A government's ability to manage this disproportion determines its fate. Lenin thought that capitalism would come to an end amid an international war over natural resources. With hindsight it is arguable that perhaps he wasn't wholly wrong after all.

In his brief remarks, Anatoly Adamishin focused on long-term European problems such as the economy, immigration and demography. He also mentioned current affairs, saying that Russia and Germany agreed in the UN Security Council on non-intervention in Libya, and they have been proven right. More fundamentally, he wondered where history will go. History goes where it wants, Marxists were wrong to posit laws of history as part of the historical-materialist dialectic. What is certain is that history is not going Russia's way. Two figures illustrate this point. In 1993, the economies of Russia, China and India were approximately equal. By 2008, China's was 3.5 and India's 1.5 bigger than Russia's. In other words, Russia is falling behind, and that makes a robust and effective partnership with the EU and others more – not less – necessary.

For his part, Mark Almond warned in his intervention against the danger of presuming that we know where the fault lines of history really lie. For example, is democracy in the Arab world something that the 'classical democracies' in the West would actually like? Will a more democratic Egypt not reconsider its close links with the USA and Israel? Talleyrand's motto was that 'our side is winning ... because we will know in the morning who has won and that will be our side', but it is far from clear whether democratic change in the Middle East and North Africa will be to the West's advantage. Indeed, the fate of Albania and Yugoslavia provide worrying precedents. Per capita income in energy-rich countries like Saudi Arabia is falling, so rising oil prices won't be sufficient to promote economic development and reduce inequality as well as poverty. India has the benefits and shortcomings of a democracy, but also many more illiterate people than China, which has basic education but fewer highly educated graduates. In the US, there are many excellent universities and graduate programmes but also numerous functionally illiterate pupils and graduates, due in large part to a lack of classical education and large-scale infrastructure. Across emerging markets and developing countries, 'no jobs' very often means no state job. People are worried that private sector employment will be unstable and fail to offer secure income. By contrast, public sector jobs are coveted in terms of security, prestige and access to positions of patronage that benefit family and clan members.

What is clear is that the EU is far less able and willing to absorb mass migration from the countries of North Africa. Coupled with soaring (youth) unemployment and a jobless economic recovery, the wider Europe faces a protracted social crisis. In this light, it could be argued that Russia's high death rate and low birth rate are perhaps not such a national catastrophe after all: as the demand for human labour is going down, unemployment will be less acute than elsewhere. At the moment, Europe's most pressing problem is the eurozone.

Beyond technical details about bail-outs and debt restructuring, the key question is whether Germany is prepared to support poor people from the periphery on a much larger scale than the absorption of the former GDR at the beginning of the 1990s: Will Ireland rejoin Britain and/or the Sterling zone?

At the end of his introductory remarks, M. Almond briefly touched on some wider geopolitical issues. In addition to nuclear arms, he argued that water is a strategic asset, especially in the Middle East (Syria *versus* Israel) and in Asia (China *versus* South-East Asian states). As for Turkey, the governing elite in general and the current government in particular have a split perspective and even a split personality. On the one hand, they pursue EU accession but, on the other hand, they affirm the country's neo-Ottoman outlook. On the one hand, Turkey is an energy importer, but on the other hand it is becoming a major actor in the field of energy and other resources (as a transit country for gas and with a huge reservoir of fresh water). On the one hand, the government seeks close ties with Russia and Iran, but on the other hand it is a long-standing member of NATO and remains a close ally of the US. As such, Turkey's stance reflects the shift in the balance of power away from the West.

The discussion that followed these three introductory presentations centred on a number of geo-political and geo-economic issues. First of all, the question of unipolarity, multipolarity and the role of NATO. Peter Duncan remarked that only twenty years ago, the geo-political balance was utterly different: there was one superpower in the world, with a network of loyal allies. Now, by contrast, we really are in a multi-polar world where the US cannot cope alone in Iraq or elsewhere, thus turning either to 'coalitions of the willing' for the purpose of initial interventions or to NATO for the purpose of 'peace-keeping' missions. NATO, which has been seeking a new role since the end of the Cold War, faces defeat in its biggest 'out-of-area' mission in Afghanistan, a scenario that could spell the end of the 'global war on terror'. What is clear is that NATO is no longer the main instrument for world security, but no single power or alliance will in the foreseeable future replace it.

Here Peter Schulze made the point that multi-polarity is a fussy term that can refer either to largely disconnected poles or else to alliances both within and across poles that are variously more cooperative, more competitive and even more hostile. At home the US are still engaged in a process of state-building, but the intellectual-political debate continues to be dominated by the idea of an American mission in the world. For his part, A. Clesse spoke of the rise of new empires and the decline of the US empire. He said that it is far from certain whether the former or the latter are more assertive or even aggressive. For instance, could the US resort to a reactive stance under a future administration that is perhaps dominated by the Tea Party movement? Or is it the case that the Chinese leadership is becoming more assertive? Or perhaps both developments are true at the same time. L. Rühl argued that North America (US, Canada and in some ways Mexico) is an empire unto itself – with the largest market and huge natural resources. As such, North America has the potential to recover and expand. In fact, Obama could be the first US president since Roosevelt to disentangle the United States from the illusions of unilateral unipolarity. In this sense, a combination of multipolarity and distinct blocs seems descriptively accurate – whether in North America, Latin America, Europe or Southeast Asia. But what matters perhaps more than multipolar arrangements is the evolution within certain poles. Take the example of Europe: Germany has become ungovernable because it is in a state of permanent electioneering – a constitutional settlement imposed by the US. That has terrible consequences for the EU as a whole and particularly the eurozone.

Linked to this is the geo-economic balance – the second set of issues raised in the discussion. Adrian Pabst argued that the ‘credit crunch’ in 2007-8 that led to the recession in 2009 was predominantly a transatlantic phenomenon, with the US and Europe affected worst – including Russia that saw its 2009 national output decline by 10%. The rest of the world did not suffer a systemic financial crisis or a deep recession. In fact, Latin America and (East) Asia experienced currency and banking crises in the 1990s. But what this suggests is, first of all, that a global financial crisis may yet happen and, second, that the events of 2007-9 mark the intellectual bankruptcy of the transatlantic model that is based on liberal market democracies and finance capitalism. Indeed, all the elements for a genuinely global financial crash are in place: bubbles in commodities and real estate that are fuelled by global imbalances between surplus and deficit countries; speculation that is driven by ‘hot money’ moving in and out of equities in both advanced economies and emerging markets; monopoly and monopsony power (excessive buying power through market dominance) in banking, retail and commodity trading; corporate and sovereign debt default. One of the underlying causes is the growing abstraction of finance from the real economy and the concomitant financialisation and commodification of society and everyday life. The complex, non-linear process of disembedding the economy (and politics) from society can be traced to the rise to power of the national state and the transnational market that is coextensive with the post-1648 Westphalian settlement, a model that is manifestly in crisis.

Moreover, the wider Europe that encompasses Russia faces a demographic crisis, with persistently low birth rates. By contrast, on current trends the US population is set to be one of the world’s youngest by the end of the 21<sup>st</sup> century, while China could have one of the oldest – with significant implications for its socio-economic system. In the medium-term, much of Europe seems to be caught between a US economy facing an unprecedented debt problem and an Asian catch-up that will shift the balance further towards the east, concluded A. Pabst.

In terms of further geo-economic trends, P. Schulze suggested that oil is on its way out and that both shale gas and LNG are the future. Thus, its vast gas reserves give Moscow an enormous asset. Russia has a window of opportunities for about 10-15 years to use profits from rising gas prices for the modernisation of its energy sector, in particular the capital stock, the industrial base and technological innovation. No Asian option is possible for Russia, as the gas pipeline network is linked to the rest of Europe and only a single pipeline to China.

At the end of the first session, A. Adamishin said that the US has many strategic advantages (including its system of Higher Education and R&D) but that its model appears to be in greater trouble than at any point since the Great Depression of 1929-32. He also reported that there is a debate in Russia about whether to ‘help’ US decline and assist China’s rise or back a US revival. A. Clesse argued that the discussions raise the question of the irrational side of contemporary politics and that not all key aspects can be analysed in terms of dependent or independent variables. When it comes to long-term predictions such as the evolution of population size and structure, we have to bear in mind the possibility of unforeseen and unforeseeable events that can suddenly change the entire trajectory.

### **III. Assessing the role of Russia in European and global affairs in 2011**

At the beginning of the second session, A. Clesse mentioned a number of concepts that may be useful in assessing the current role of Russia in European and global affairs: first of all, ‘soft’ *versus* ‘hard’ power; second, the idea of ‘mission’ in foreign policy; third, the distinction between ‘empires by choice/action’ and empires in terms of capacities; fourth, notions of benign or malign ‘hegemon’; fifth, Richard Pipes’ idea of ‘historical genes’ or historical memories and how they shape collective (sub-)consciousness, e.g. the will to return to former grandeur or glory.

In his introductory remarks, L. Rühl said that there is a certain pattern to the evolution of Asia. According to him, China has already decided to build up an Oceanic fleet – for purposes of self-defence and in order to push back US primacy in the Western Pacific. That was seen by former State Secretary Condoleeza Rice as the United States’ top strategic priority. As a result, the Pacific and Indian Ocean are areas where confrontation between the US and China is ‘programmed’. Second, India has many strategic assets to become a global power but the country requires technology and highly skilled people. New Delhi does not want to rely on the US for either. Third, both China and India want to protect their shipping and energy supply (Persian Gulf, Africa where China has growing economic interests), which requires substantial investment in naval power and highly mobile maritime capabilities. Whereas India is lacking determination and capacities, the Chinese are much more purposeful, e.g. Beijing is training crews for aircraft carriers, building more nuclear submarines that can fire both nuclear and conventional missiles and also planning anti-ballistic missile shields. Thus, Chinese competition with the Americans in the Western Pacific is a feature of the coming geo-political dynamic – a scenario that presents considerably more problems for Russia than for the EU. Fourth, all of this raises the question of what the significance of the Russian Pacific Rim and the Far East might be. So far it appears that Moscow lacks a clear strategic vision to defend that part of the Russian Federation and make intelligent use of its resources.

Fifth, what is interesting is that in the 1930s, arms control included navy but it unravelled and has not been revived. Contemporary developments make it a strategic imperative. Sixth, what about the Atlantic? Since the Second World War, it has been US-dominated, but it opens possible cooperation between the US, Europe and Russia. Seventh, the US will want to control much of the Mediterranean, where Italy and Turkey are the key allies – alongside Egypt (Suez, Red Sea and the largest Arab-speaking and Muslim population). Eighth, for all these reasons, Israel will become more not less important to the US. But Washington has little interest in the parts of North Africa that are closest to Europe (including Morocco, Libya, Algeria and Tunisia) – hence the Obama Administration’s reluctance to get involved in an open-ended war to remove Colonel Gadhafi.

Ninth, the EU lives and acts in the shadow of the US and Russia, but it needs to ‘stay in the game’ and mediate between both, while also (re-)claiming its influence in strategically important parts of the world such as North Africa, the wider Middle East and the trans-Caucasus. In particular, Europe needs to protect its Southern rim, that is why Libya is so important. Tenth, NATO is back to its original three-country directorate (US, France and UK), as they share a broad strategic vision, culture and capabilities that the remaining countries tend to lack. Finally, Europe needs to make some hard choices. Relations with China can’t just be commercialised or moralised, as neither trade nor human rights are the key

factor or driving force of international relations. Military links with Russia in the past created common ground and mutual confidence – something that is badly lacking now.

L. Rühl's remarks led to a lively discussion that focused on Russia's stance vis-à-vis China and Europe. A. Adamishin responded by saying that he didn't believe those who say that China's history proves an absence of hegemonic intentions. Times are changing and China's power is on the rise. There are already some *ballons d'essai* – the articles by members of the Chinese military which openly speak about hegemony. In general, Russia has two choices: either 'to go it alone' or to forge a real strategic alliance with Europe. Many in the Kremlin still think of Russia as an empire, a view shared by most ordinary Russians. But in reality the country is already post-imperial. What is undoubtedly true is that Russia can't be a global power on its own. In its present state, Europe is payer, but not a player – never mind a global power. That is why a Euro-Atlantic alliance encompassing the US, Russia and Europe might be the only alternative to eventual Chinese hegemony. Russian policy will be a lot clearer after the Duma elections in late 2011 and the presidential vote in March 2012. But the "reset" in US-Russian relations suggests that Moscow is not playing the Eurasian card.

For his part, Sergey Utkin argued that some of the interventions at the seminar are too pessimistic on the international system in general and on Russia in particular. Realist IR theory did not offer solutions in the mid-20<sup>th</sup> century or now, certainly not for Russia. But other schools of thought in IR theory offer many alternatives to the realist perspective, focusing on many aspects other than national interest or 'hard power'. For example, demography is not simply a problem because it is not limited to material factors but includes non-material dimensions too. In Russia, the quantity and quality of human capital is changing, as birth rates are slowly picking up and mortality rates are gradually falling (Here A. Adamishin interjected that Russian demography is in trouble because the country has European birth rates and African mortality rates). At the same time, immigration remains an important and complex phenomenon, boosting the population while also driving down wages and raising questions about integration. However, internet and other innovations (especially in the area of IT) will continue to generate higher numbers of migrants who are educated and want to integrate.

As such, it is possible to suggest – according to S. Utkin – that economic and social modernisation has worked and that global capitalism is providing wealth and prosperity. Politically, a country is actually stronger when power is divided across different levels. If decentralisation and federalisation continues, then fewer countries will be able to wage a destructive war against others. Currently Russia is only a federation in name, but technology has the potential to develop a much higher level of development across the country. Coupled with regional and trans-regional blocs of integration and international mechanisms for arms control, inter-state conflict can be avoided.

Here M. Almond contended that political culture changes but that this is not perceived as such. For example, Russia's intervention in Georgia in 2008 is seen as exclusively colonial in the context of the post-Soviet space, but equally it can be suggested that Russia is becoming a more 'normal' country that fights back against the provocative governments of small neighbouring states. Likewise, China post-1433 is said to be introspective, but this too seems to be changing – with the country's rapid economic and military expansion across the world. As for the ongoing debate about values, norms, double standards and legitimacy, neither the



West nor the East are asking some fundamental questions. Who will be the ‘judge of the judges’? Who has legitimate authority to impose universal standards?

On this question of legitimacy and political ‘ownership’, A. Pabst argued that in Europe the EU is no longer ‘the only game in town’. Non-Western European powers such as Russia and Turkey are forging close, strategic links with one another and challenging an EU-centric account of Europe in the global geo-political and geo-economic balance. The present Russian and Turkish leaders view their countries as European powers in their own right and on an equal footing with the big EU member-states. They resent what they see as double-standards and hypocrisy. But at the same time, their appeal to notions of sacrosanct national sovereignty and non-interference is at odds with their putative aim of seeking closer cross-border integration with the European West (e.g. travel freedom, trade and even security and defence cooperation).

For its part, the EU is suffering from both integration and enlargement fatigue, unwilling and increasingly unable to offer a shared future for member-states and candidate countries. The glue of the single market will hardly be sufficient to hold the Union together. Various EU countries have also recognized that Russia is a greater threat if it is on the margins of a common European project rather than a part of it. That has led some EU leaders to launch discussions about a pan-European security and economic community. The trilateral talks between France, Germany and Russia at the Summit of Deauville on 18-19 October 2010 were a modest yet significant beginning in this direction. This, coupled with the recent Anglo-French defence initiative and Russia’s rapprochement with NATO, has the potential to create a pan-European security and defence identity, said A. Pabst.

According to Olexiy Haran, the main security threats come from the global south, not the west. Russia needs to overcome imperial instincts, but it remains profoundly authoritarian. At the same time, Ukraine’s domestic policy direction is unclear under the new president Yanukovich. Russia combines pragmatism with an imperial outlook – the idea of *Russki Mir*. For example, Moscow could use soft power instead of energy blackmail or military implantation. Full Russian-Ukrainian reconciliation is still outstanding but absolutely crucial to peace and stability in Europe’s ‘central east’. After the initial euphoria following the election of Yanukovich, now the overriding sentiment is one of disappointment. Just when an association agreement with the EU looks imminent, the Russian Prime Minister Putin is proposing to the Ukraine membership in Russia’s customs union with Kazakhstan and Belarus. But surely not even Russia’s strong man can force the Ukraine to quit the WTO, which it only joined in 2008. Civil society in the Ukraine is providing opposition and resistance to dangerous tendencies, including political opposition parties, but without judicial independence little political progress will be possible.

Following on from that, Olga Shumylo-Tapiola also suggested that the Ukraine has no strategic vision for its own future. Kiev is deeply ambivalent about its relations with Moscow and also other members of the CIS. As for ties with the EU, the current Ukrainian leadership wants more for less – fewer domestic reforms in return for greater economic and commercial benefits. Unlike its bigger neighbours in both east and west, the Ukraine does not have the option or luxury to stay in the ‘grey zone’ between the EU and Russia. Similarly, Olga Butoryna argued that GDP per capita in Russia is twice lower than in the EU, and even lower

in many parts of the Ukraine. Numerous Ukrainians who work and live in Russia still send back remittances on which the Ukraine relies in order to raise income levels.

At the end of the session, A. Clesse raised some questions about Russia's role in the upcoming European order. What does Russia want? How robust or frail is the country? Demography appears to be a key variable and Russia's demographic evolution is contested. Does Russia have a societal model that is attractive for its citizens and for others? Is there divergence within Europe on a greater scale and intensity than at any time since the end of the Cold War? Is there an alternative to the Brussels-based view of European integration and enlargement?

#### **IV. What is at stake?**

The third session considers the main stakes for Russia in the unfolding geopolitical and geoeconomic balance in Europe and in the world. At the beginning, A. Clesse suggested that American hubris has led to self-defeat. One question that arises from this is whether not just Europe but also the US are experiencing something like (existential) anxiety. As for Russia, it does not seem to have recovered from the post-Communist transition. Gorbachev committed major blunders and lacked a strategic vision for the direction of his country, a fundamental problem that has not been fully addressed or resolved by any of his successors. In some sense, the last twenty years of Russia's development have made things worse.

In his presentation, A. Adamishin contended that Gorbachev and, to a lesser extent, Nikita Khrushchev, were reformers who sought to chart a new path for the USSR. Nowadays Russia does indeed face a deep crisis. First of all, a decline of science and R&D due to the emigration of numerous scientists; second, the outflow of capital; third, a decline in the number of beautiful women. Under Putin, the political system has mutated from a young imperfect democracy to a variant of 'mild authoritarianism' that is characterised by a number of features: no real opposition; no genuine political competition; no independent mass media; no independent and effective parliament; no independent courts. Paradoxically, it is also true that Russians have never been freer than today. They have the liberty to make money and to travel, and they also enjoy the freedom to worship. Even though economic and social conditions are not fully determined by the reigning political climate, it is nonetheless the case that there is a trade-off between private liberty and public political freedom. For a country with as great a culture as Russia, it is a shame and disgrace that one or two people decide on who the next president will be. Of Medvedev and Putin, A. Adamishin said that he clearly preferred the former.

On the political situation, P. Schulze made the point that Putin's popularity is real. President Medvedev is surrounded by a dubious team, with some 'Yeltsinites' and pro-American advisers such as Igor Yurgens. The real problem is not so much the politics but the economics. Russia suffers from an acute lack of investment in real, productive activities. For this reason, it is bizarre to suggest that the country's future lies with the East in general and China in particular. Where does and can Russia get technological innovation from? Parts of Germany, Italy, Austria and perhaps Japan, but not China. What most ordinary Russians seem to care about is their freedom to consume (based on what they earn). The burgeoning middle classes want stability, which is not offered by Yabloko, but rather by United Russia and Just

Russia. Medvedev is the right man to promote modernisation, and he should be supported. The West should refrain from interfering or lecturing.

Asked about whether it is in the interest of the population for Russia to join the WTO, O. Butoryna said that the answer is very complex. First of all, what is required is a vehicle currency to exchange Russian Rouble into other currencies such as the Japanese Yen or the Chinese Yuan. In this respect, the introduction of the Euro marked a revolutionary change, challenging the supremacy of the US Dollar. The Russian Rouble could be pegged to the Euro, and trade in oil and gas could be linked to the European common currency too. Second, a proper eurozone system of shared economic governance could save the Euro and give the Stability and Growth Pact a second lease of life. This matters for Europe and also for Russia, as the Euro represents more than 50% of Moscow's currency reserves. The Rouble exchange rate is currently indexed in terms of a currency basket made up of the US Dollar (55%) and the Euro (45%, up from only 10% in 2005). Overall, the volatility of the Euro exchange rate and the Russian inter-bank spot market has fallen, making trade less risky for both sides.

Third, a switch from US Dollar pricing (formal and informal) to either Euro or Rouble pricing (and bank account) would also help the modernisation of Russia's economy. This, coupled with a re-balancing of bank holdings from foreign currencies to domestic money (the current ratio being about 1:3) could help stem the outflow of capital – provided that inflation can be brought under greater control. Global energy prices are still quoted in US Dollar but trade payments in Euro could also boost exchange between Russia and her European partners. Fourth, closer cooperation between the Russian central banks and the ECB, but also in coordination with private banks, is instrumental in modernising Russia's economic system and making Russia membership in the WTO viable. Even on new financial instruments, cooperative ties between both sides at the level of the G20 could be very beneficial.

In terms of energy relations between Russia and the EU, Franz-Lothar Altmann quoted figures showing that currently one-third of the EU's total energy supply comes from imports. By 2050 this share will have gone up to two-thirds. In the case of natural gas, 50% of Europe's needs come from imports and here at present already more than half from Russia. As such, Russia has a strong position in supplying gas to EU countries, but can Moscow meet both growing domestic and foreign demand, when the latter, in particular that from Europe, will increase due to the forecasted augmented usage of gas as bridge technology between closures of nuclear plants and the future of renewable energy (Germany!)? Lack of investment and modernisation in Russia may lead to export shortages to the 'near abroad' when trying to uphold or even to increase deliveries to the West. In that respect Western investment and technology is needed since the financial requirements for Russia's investment into the energy producing sector and also in transportation infrastructure are immense. However, the EU must at the same time look for alternative gas supplies, mainly from the Caspian region and the Middle East, but this is seen by Gazprom as an unfriendly act jeopardising its aspired monopoly position on the European gas market. Moreover, after the disaster at Fukushima, nuclear cooperation with the West (e.g. Rosatom and others) is likely to be scaled back significantly.

Dmitry Danilov agreed with previous speakers that the rapprochement between Russia and the West is not a choice but the only realistic opportunity. At the same time, Russia needs her own strategy, formulated by her own elites. What is increasingly clear is that the so-called

‘power vertical’ established by Putin does not work: at all levels of the Federation the Russian government does not function efficiently, and all local decisions have to be supported by the centre. Any cosmetic project of modernisation simply won’t do. The country needs systemic modernisation. Medvedev does offer such a vision – it is not a choice of personalities but of strategies for the future.

As for relations with Europe and the rest of the world, the EU does not represent the whole of Europe. Other partners and institutions matter increasingly for non-EU countries. There are indeed different pan-European strategies of integration that are available to emerging markets and rising powers such as Russia and Turkey. Capital flows are critical, as Asia is attracting far more capital than Russia, and this does indeed hamper the country’s modernisation. However, the potential for greater economic and commercial cooperation should not mask the fact that Russia and the rest of Europe have divergent security strategies and policies and these differences won’t be bridged easily in the near future. What is missing is a shared strategic outlook.

Towards the end of the session, there was a debate about Russia’s role in the conflict in Libya. F.-L. Altmann thought that Russia’s behaviour in the UN Security Council was surprising. Given that the US joined France and the UK in supporting the draft resolution 1973 (2011 on Lybia), it was significant that Russia abstained rather than vetoed it – despite long-standing reservations on foreign intervention and interference in domestic affairs. This surprise was only trumped by Germany’s failure to support its traditional allies, a move that has isolated Berlin on the international stage. P. Duncan said in relation to Libya that Russia had to abstain following the Arab League’s clamour for international support. Therefore it remains to be seen whether the Kremlin is prepared to change its stance on military intervention and whether such a shift in policy will lead to greater cooperation with European powers.

A. Clesse brought the session to a close by suggesting that Russia has been characterised by a ‘strong unevenness’ in virtually all respects. It is indeed a country of all extremes. Does Russia therefore need a more balanced development? Can it achieve this, materially and psychologically – economically and politically? Can and does Russia offer a cultural and civilizational perspective to its population and the rest of the world? Who in Russia defends a vision that is not tainted by nationalism and xenophobia?

## **V. Looking ahead**

In a short concluding session, the participants reflected on Russia’s possible role in the European and global system in 2050. M. Almond kicked off the discussions by arguing that the paradox of Russia’s road to joining the West is a dialectical process that oscillates between embrace and rejection – on both sides. What has been apparent for some time is that the formal process of meeting international standards and signing treaties is a dead end. If you look at post-Soviet countries joining WTO (or its predecessor the GATT), then it looks like a strategy of ‘integrating into the grave’. This is because the economic, social and cultural costs of opening up domestic markets to global competition are rising exponentially, not in a linear fashion. Nor does membership in organisations like the WTO necessarily solve problems of corruption and the limited application of the rule of law. On the contrary, it can sometimes make such problems worse, as new opportunities for trade also offer the possibility of

siphoning off large rents. The former Prime Minister of Australia Paul Keating described his own country as the ‘richest Banana Republic’ of the world – Russia is the biggest. What Moscow desperately needs to do is to build up technical skills and domestic production before joining the WTO.

For his part, P. Duncan said that it is misguided to separate democracy and human rights from foreign and security policy. In that fundamental sense, the Helsinki process was right. Paradoxically, the freest elections that Russia has seen in its recent history were in 1990 and 1991, not after 1993. In relation to S. Utkin’s point about the importance of realism in IR theory, recent developments show the validity of forms of social constructivism: the Americans really did believe that they were fighting for democracy in Afghanistan and Iraq. Similarly, Russia’s multiple identities (European, Asian, Eurasian) create ‘new realities on the ground’ that change the perception of national interests. Indeed, the future of Siberia and the Far-East occupy a growing space in domestic political debates about Russia’s future role in the global balance of power. Broadly speaking, it seems that Russian history moves in cycles of expansion and contraction and of moving either east or west. P. Duncan added that about every 30 years (1921, 1956, 1985) some kind of reform seems to be introduced from the top, because of the needs of economic or social progress, but each of these attempts at reforms had been followed by reaction. There would likely be another such reform movement in a few years time. It was important that Western states and institutions gave support to the next wave of reform, instead of seeing the desire for reform as a time of weakness in which it was profitable to make gains at Russia’s expense, as had happened with NATO enlargement after the Cold War.

Against the idea that Medvedev is merely a puppet in the hands of Putin and his men, P. Schulze argued that the current president’s policy can in fact be described as *lex Sechin*, foreshadowing the new presidency that he will be granted in exchange for keeping the regime’s pillars in place and not moving against the main players. Medvedev’s annual addresses to the federal assembly clearly set out a European as opposed to a Eurasian path: the themes of modernisation, anti-corruption, Russia as a part of European civilization won’t resonate much in Beijing. It seems that Vladislav Surkov has already formulated a ‘master plan’ for Russia’s future path. First of all, stability for about 10-15 years in order to move with the policy of modernisation that is indispensable and, in turn, requires Western partners. Secondly, the question of who should conduct this process of modernisation raises the problem of cadres. That, in turn, raises questions of time, education and training for diversification and technological innovation (including SMEs). None of these policies can be properly addressed without the help of European countries.

In her remarks, O. Shumylo-Tapiola wondered whether Russia is bent on ‘reintegrating’ its former territories and (re-)creating a Soviet-style empire. Although Ukraine’s independence happened in 1990 by default, most Ukrainians do not want to revert to Russian domination. The country is genuinely torn between East and West, but the preferred option of closer ties with the West will take a long time to materialise. Strong links with Russia will continue, but the model of Ukraine’s development will – and should be – European. O. Haran reinforced this point, saying that for the Ukraine to abandon its membership in the WTO and join a Russian-led customs union would represent a serious loss of sovereignty. The better path for Kiev is to stick with the WTO and to go in a distinctly European direction, starting with an association agreement between the Ukraine and the EU. On the issue of Ukraine’s future, he

said that he could not detect any difference between Medvedev and Putin. Both want to restore Russia's hegemony.

S. Utkin took a different line. He referred to Tarkovsky's movie "The Stalkers" and said that when people approach the room where wishes come true, they do not enter because they fear taking the final step and making what seems to be an irreversible commitment. Russia follows a hesitant policy vis-à-vis NATO and the EU but also WTO membership, especially in relation to the Doha round. One very simple yet fundamental step to improve East-West relations and integrate Russia into the shared European space is to institute visa-free travel. Beyond the practical implications, such a move would have great symbolic meaning as it indicates whether Russia is inside or outside Europe. Only small steps can lead to a lasting union between Russia and the EU. Here A. Adamishin quipped that the Russian people will overcome all the difficulties and problems and build a road towards a bright future – it is just a pity that no one will live to see it!

L. Rühl disagreed with much of the above, saying that Western European countries won't enter into any kind of association with Russia without the explicit approval and support of the United States. NATO is and remains the closest military (and political) alliance of the 20<sup>th</sup> century that will last for a long time. Second, Russia is not in Europe, though it is part of Europe. It is Eurasian and a power in the east of Europe, as Gorbachev himself put it in his Helsinki speech. The only way to bring about a lasting East-West rapprochement is to improve US-Russian relations, followed by closer coordination and cooperation between NATO and Moscow. Only then will the EU and Russia be able to realise the potential of their 'strategic partnership'. Russia seeks equality with the US at the global level, whether in the UN Security Council or in terms of bilateral agreements (on arms reduction, etc.). The aim seems to be to keep the US and China apart and thus to prevent a new bipolarity that excludes the Kremlin.

In conclusion, A. Adamishin contended against L. Rühl that Russia's future is with Europe and vice-versa, not with the USA. He quoted Alexander Pushkin who said that Russia's destiny was "to enter Europe and to remain Russia".

### Concluding remarks

The seminar gave rise to a lively exchange of ideas that cannot be easily summarised in a set of concrete policy recommendations. However, there are a number of broad conclusions that can be drawn from the discussions of the roundtable.

First of all, most of the prevailing systems are in crisis, both the Western economic and social models of market capitalism but also the Russian and Chinese alternatives of state capitalism. A lack of reform at home will have negative repercussions on the international geopolitical and geoeconomic balance, as evinced by the growing US debt problem and the prospect of currency and trade wars with China.

Second, the US remains the most powerful country, way ahead of China, Russia or the EU. As such, Russia's role in the international system will be shaped predominantly by Moscow's

relations with Washington, not links with Beijing or Brussels. At the same time, the shift in the global balance from West to East complicates the overall dynamic.

Third, Russia's identity is torn between its deep cultural ties with Europe and economic opportunities in Asia. While the Russian elite and population are drawn towards closer ties with the EU and other European countries, it is also the case that the country's future may paradoxically be determined by developments in Siberia and the Far East.

Fourth, economic and political factors that shape Russia's role in the international system must be understood with reference to demographic, cultural and even civilisational factors. For example, Russia has a vision of Europe and her place therein that differs fundamentally from an EU-centric view. As such, one key question for the future is whether Russia is able to offer a social and societal model that appeals to its population, its immigrants, its neighbours and the rest of the world.

A. Pabst  
May 2011

## Appendix I

The Luxembourg Institute for European and International Studies (LIEIS),  
the Russian State Agency for International Cultural and Humanitarian Cooperation at the  
Russian Ministry of Foreign Affairs,  
the Association for Euro-Atlantic Cooperation, Moscow  
*with the support of the Business Association Luxembourg-Russia and  
the Luxembourg Ministry for Culture*

### Conference

#### **Russia and the future geopolitical and geoeconomic balance in Europe and in the world**

*Friday 15 April 2011*

Maison de l'Europe  
7 rue du Marché-aux-Herbes, Luxembourg

### PROGRAMME

- 09.00 Welcome by Alexander Shulgin, Ambassador, Russian Embassy in Luxembourg and Armand Clesse, Director of the Luxembourg Institute for European and International Studies
- 09.15-10.45 **Session 1:** Russia, Europe and the global setting: Is there a major redistribution of the key power assets? Relative, as well as absolute, decline of the US; stagnation of Europe; rise of Asia?
- 11.00-12.30 **Session 2:** Assessing the role of Russia in European and global affairs in 2011: political, economic and strategic aspects; the societal underpinning of the role; hard and soft power, tangibles and intangibles; external and internal security; energy; Balkan and Black Sea policies; Neighbourhood Policy; relations with Ukraine, Belarus, etc.; Caucasus and Central Asia. Does Russia live up to its potential, the expectations?
- 14.00-15.15 **Session 3:** What is at stake? What should Russia's role in the international system be: a rather regional or a genuinely global one? What should be the major focus? Primary resources vs. market access. From Lisbon to Vladivostok: What prospects for a pan-European community? Interests of Russia: Where do they differ from, where do they overlap with European and American interests?
- 15.30-17.00 **Session 4:** Looking ahead: Russia in the European and global system in 2050.



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## List of participants

- Adamishin, Anatoly**, Ambassador, President, Association for Euro-Atlantic Cooperation, Moscow
- Almond, Mark**, Visiting Associate Professor, Dept. of International Relations, Bilkent University, Ankara
- Altmann, Franz-Lothar**, Associate Professor, UNESCO Chair on the study of inter-cultural and inter religious exchanges, University of Bucharest
- Blinov, Anatoly**, Representative for Luxembourg of the Russian State Agency for International Cultural and Humanitarian Cooperation at the Russian Ministry of Foreign Affairs
- Butoryna, Olga V.**, Professor, Head of Department, Moscow State Institute of International Relations (MGIMO)
- Clesse, Armand**, Director, Luxembourg Institute for European and International Studies
- Danilov, Dmitry**, Head, Department of Security, Institute of Europe, Russian Academy of Sciences; Member of the Coordination Committee, Association for Euro-Atlantic Cooperation, Moscow
- Duncan, Peter**, Senior Lecturer in Russian Politics and Society, School of Slavonic and East European Studies, University College London
- Haran, Olexiy**, Founding Director, School for Policy Analysis; Professor at the Department of Political Science, University of Kyiv-Mohyla Academy, Kiev
- Hirsch, Mario**, Social Scientist, Luxembourg
- Kirsch, Guy**, Professor emeritus of Economics, University of Fribourg, Luxembourg
- Pabst, Adrian**, Lecturer in Politics, School of Politics and International Relations, University of Kent, Canterbury; Research Fellow, Luxembourg Institute for European and International Studies
- Rühl, Lothar**, Professor, Research Institute for Political Science and European Affairs, University of Cologne, former State Secretary of Defence, Germany
- Schulze, Peter**, Professor, Seminar of Political Sciences, University of Göttingen
- Shulgin, Alexander**, Ambassador, Embassy of Russia, Luxembourg
- Shumylo-Tapiola, Olga**, Visiting Scholar, Carnegie Europe, Brussels; Member of the Supervisory Board, International Centre for Policy Studies, Kiev
- Utkin, Sergey**, Researcher, Head, Section for EU studies, Institute of World Economy and International Relations (IMEMO), Russian Academy of Sciences; Vice President, Association for Euro-Atlantic Cooperation, Moscow