

A GEOPOLITICAL ANALYSIS OF ECONOMIC TRANSITION AND ITS IMPACT UPON SECURITY IN EUROPE

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This paper reflects the personal views of the author and should not be interpreted as official NATO policy. In parts, the analysis may come across as negative and/or over-critical, even conceited - if so, this is not intended. There is much that is positive going on in the transition economies of C&EE, indeed, a look into the “rear-view mirror” to see where many of them were just a decade ago reveals the progress made to be little short of miraculous. But ultimate success is not guaranteed. This paper attempts (in Part 1) to explain the nature of economic transition in relation to concepts such as power, security, democracy, hegemony, culture, history and sovereignty in order to better understand (in Part 2) the security risk for the West that continuing economic weakness in some Partner countries undergoing transition represents, and, conversely, the security concerns felt elsewhere as Western values of market capitalism and individual liberty go global.

PART 1: GEOPOLITICAL ISSUES WHICH MOULD TRANSITION

The End of History?

Is the end of the Cold War really the end of history, as Francis Fukuyama¹ has famously expounded? On the face of it, democracy has in the 20th Century defeated its greatest foes in succession, first fascism and now communism. No significant state - many suppose - will ever choose to follow those paths again, in particular, the state-controlled command plan economics of the latter. Although the form may vary, every state will - according to this thesis - soon be democratic and by extension market-oriented because the free movement of ideas and money made possible by new technologies are removing whatever physical barriers that states might construct over how much of both is sent and to whom. Indeed, information technology is the conduit by which democratisation trends are growing. Democracy is even beginning to chip away at the fringes of the Arab world as well because absolute rulers there are unable to completely stem

the flow. Because it is the West that, by and large, is the progenitor and master of the new technologies, it is Western ideology, or at least its most seductive parts such as consumerism and individual freedom, which are gaining wider currency and support. As a Dalek might say to Doctor Who, “Resistance Is Futile”. Whether they like it or not, states are becoming more similar to one another and so will have little or no need to go to war. As Fukuyama still opined in 1999, “liberal democracy and a market-oriented economic order are the only viable options for modern society”.² After all, where is the competition?

But taken to extremes, such a “democracy guarantees peace” argument could be considered crude. Just holding a free election does not in itself turn a country into a stable, peace-loving and tolerant society. Take Algeria and Pakistan for example, or Fujimori’s Peru. Democracy has to grow up. It needs to be nurtured by things such as a stable economy, impartial judges, an uncorrupted civil administration, independent political parties and a free press. Above all, it needs self-discipline amongst would-be leaders and governments - and amongst minorities that might be systemically denied full representation. Creating all of these things takes time and it would be truly remarkable should all the new recruits to democracy acquire them all straight away. Clearly they have not and it is likely to be many decades before the World achieves Fukuyama’s dream of political and economic homogeneity, or anything approximate to it. During this period, instability the like of which has disfigured the last century will likely continue to be a feature of the next. But despite the growing pains, no one has come up with an empirically better way for humans to coexist with one another and democracies have not gone to war against each other since 1914. Moreover, the richer and more sophisticated that the people living in Western democracies become, the less acceptable that war and its attendant horrors likewise become. As one observer recently put it, “a whole new body of states is emerging that seriously want not to fight each other”.³

What is the West?

So the World appears to have a growing hegemonic order comprising democracy and market capitalism as its principle ingredients and loosely grouped under the label “the West”. But how real a concept is the West? Its chief components are the United States and Western Europe, with other outlying appendages such as Canada, Australia, New Zealand and Japan, some of which are clearly not western in any geographical sense. In an economic and/or cultural sense, states as diverse as South Africa, Singapore, Hong Kong, Taiwan, Turkey, Israel and maybe Mexico might also count, even though many people in these countries might not consider themselves “Western”. The United States is clearly the leader of the pack and it is American popular culture that the others follow, as indeed do the populations of outside countries that aspire to join the West. But America is a self-sufficient continent, even psychologically, and is less interested than

Europe in other cultures. In the words of Dominique Moisi, “America is more imperial than imperialist”.⁴

One result from this is that Europe is becoming more aware of the limitations that part-dependence upon America entails, something the Kosovo war has advanced. Whilst Europe remained divided, this did not seem to matter. But now that Europe is regaining its geographical unity, it is becoming more aware of its separate identity, and, in military terms, its second-class status. Indeed it is mildly ironic that just as the Central European nations are eagerly embracing the West which for them not only exists but forms a central part of their new identity, the West may becoming two different “West” with each preserving their cultural differences or essence. Nevertheless, what unites Europe and America remains far more fundamental than what divides them. With modesty and care, the more sensitive and ability-to-compromise qualities of the former combined with the raw dynamism of the latter can be offered to the World. In short, a way of organising society that has served both so well. One hundred years ago, the “West” **was** Europe and ruled much of the World. Today, the West is less hegemonic in geopolitical terms but perhaps more influential than ever before as a model for others to follow.

The Choice on Offer

But exactly what is the “model” on offer. There are several different variants on the market capitalism theme. The “social-market” of Germany or Scandinavia; the “mercantilist” market of France; the “bureaucratised” market of Japan; or the “laissez-faire” market capitalism of the Anglo/Americans. Which is best has not been settled and probably never can be settled, for each has its advantages and disadvantages. The choice depends to some extent upon a nation’s culture or “sense of being”. What people feel comfortable with. Elections may lead to alternate governments of “left” and “right”, but the policies each pursue merely push at the boundaries of each chosen model without ever seeming to violate them. A nominally right-wing government in Germany never in a whole decade made any serious dent in the post-war social contract. A nominally left-wing government in Britain is proving to be more pro-business than its right-wing predecessor.

The point here is that despite a commonality of interest and culture, a largely shared history, the building of an ever-closer economic union and the imminence of a common currency, the states of Europe still maintain significant differences and a fair latitude for independent action. In particular, states - either alone or as allies - are still the predominant wielders of armed force. This is not about to change soon. States in the West are still sovereign entities and if this sovereignty has become a little diluted as money, information, ideas and increasingly people have become highly mobile, it is because a conscious decision has been made to pool it.

Sovereignty under Threat?

To some extent, choosing to undertake transition - as most states in Central and Eastern Europe (C&EE) have - involves a conscious decision to give up some sovereignty, which is more difficult for a country such as Russia to accept because it has a large historical stock of sovereignty to lose. Russia has its own sense of being and still sees sovereignty and security as indivisible. But in reality, at least in the West, it is pooled sovereignty which provides security - something quite different. Despite the fact that say Italy and Germany have pooled their sovereignty in that both are members of the EU and of NATO and will soon be sharing the same currency, Italy remains definitively Italian and Germany remains definitively German. The citizens of both countries would not have it any other way, but for them, sovereignty is defined more by their distinctive cuisines, by their musical or architectural heritage and the colour of their trains than by who precisely controls interest rate policy.

Russia and other states undergoing painful transition may not be ready yet to understand this, let alone compromise on it. The “crony capitalism” often prevalent in these states is sometimes justified on the grounds that it is at least domestic rather than foreign bandits that are to blame. But the only solution might be to leave the macro-management of money - something that Russians in particular have always been useless at⁵ - to someone else. Such a solution has been advocated by several commentators⁶ and would involve the imposition of a currency board or even making use of the US dollar (already the *de facto* currency of private trade) or the Euro official. Good money would soon drive out bad. Existing central banks would also need to be overhauled or abolished and commercial banking sectors would need to be freely open to foreign competition. Good banks would soon drive out bad.

Such a policy cocktail would of course seriously impinge upon conceptions of national sovereignty, but the ability to actually use sovereignty, to act unilaterally and influence the behaviour of others, is also compromised by a poorly functioning economy. This takes time because political capital takes much longer to dissipate than economic capital, which can flee across borders in an afternoon. Russia - as Britain before it - will continue to punch above its (economic) weight in World affairs for several more years, but the poorer the country becomes - relative to elsewhere - the less able Russia will be to act upon its pronouncements, and the less inclined others will be to listen. Russia's burgeoning debt to Western creditors is also increasing its obligations and reducing its ability to act independently in a subtle way. Indeed, NATO's recent action in Kosovo - accompanied throughout by shrill denunciations from Moscow - suggest that this process has already begun. Maybe Russia joining the West - once it understands that its sovereignty would be enhanced rather than diminished - could be compared with Britain joining the EU. All knew

the marriage to be ultimately inevitable, but what a struggle to get the bride to the altar.

Not All Quiet on the Western Front

But maybe it simply will not be the case that once all the significant states in the World are democratic, have working market economies of varying efficiency, and have come to terms with the loss of raw sovereignty involved, the West can sit back in the twilight of history, relax, and contemplate on a job well done. Suppose that by 2010 China has evolved into an aggressive export-orientated, bureaucratic-capitalist yet democratic state (not dissimilar to Japan). Russia, meanwhile, has at last addressed issues of fundamental economic reform to become a less efficient and evolved (than say Germany) version of the social-market model, whereas India has embraced Anglo-American laissez-faire. To suggest that such a situation would not result in conflict would be panglossian in the extreme. America and Europe are continually engaged in trade disputes of one sort or another, which can on occasion turn quite bitter. But these are mature democracies and wiser councils (or WTO arbitration) usually prevail. Put another way, inhabitants of a young or immature democracy might be more willing to answer the call of national honour than the people of Liverpool, Los Angeles or Liege. More specifically, China, India and Russia will be among the chief contestants in the race to secure hegemony over the rich oil and gas reserves of Central Asia. Whether they are all democracies or not when battle commences is unlikely to either temper their as yet unsubdued nationalism or influence the intensity of the conflict.

Samuel Huntington⁷ expressed this idea in another way. For him, politics (whether democratic or autocratic) and economics (whether market or directed) are merely the super-structure of a state, not its foundations. The latter are blood, faith, instinct and cultural kinship. On this basis, the World could be divided into super-blocs based on the West, Islam, Confucius, Hinduism, and Slavic-Orthodox. Not all the World fits into this neat pattern of course, with Latin America and Africa being too diverse within themselves to be categorised. This World of “super-blocs” or “culture-areas” could be described as the competition that Fukuyama suggests will soon no longer exist. A new balance of power to replace the Cold War - but for two essential differences. First, these culture areas are a massive distance away from becoming political unions, let alone are the states within them equal or alike economically. Indeed, conflicts within them are far more numerous than between them. Second, the West is now predominant and sets the politico-economic agenda that it invites others to join. In other words, it is in a position to widen the security paradigm of the Cold War that was based upon defensive passivity into something altogether more pro-active.

West on the Offensive

Kosovo was a turning point. This short and for NATO casualty-free war said to the rest of the World that the Western democracies were no longer content to restrict themselves to self-defence and the pursuit of self-interest, leaving other “culture areas” to their own devices. On the contrary, it stated very clearly that the West is in the business of exporting its liberal market, democratic culture elsewhere, by force if necessary, to those regions that have the potential to destabilise or at least inconvenience either itself or converts to the cause. With virtually the whole of Europe democratising and marketising (albeit at varying pace and with differing degrees of success), the West (through NATO) showed with its air campaign against Serbia that it was no longer prepared to tolerate, in its own backyard, someone going the other way. The conclusion reached - certainly in Moscow and Beijing - is that the Western democracies are now prepared to fight a war to protect their political and economic interests, both in Europe (Kosovo) and near to Europe (Kuwait). The message to other culture areas is clear - confront us at your peril.

But is the West now acting out of **altruism** or **self-interest**? Viewed from Moscow or Beijing, the spread of democracy is also the spread of Western values, many or all of which they do not share. But these are not and need not be the same thing. The man or woman who invented the wheel was not accused, when passing on the discovery, of imposing upon others the gift of mobility. Spreading democracy and economic freedom is not imperialistic in that one country is taking over the government of another. Quite the opposite. It is allowing the people of that “another” country to govern themselves, freeing them from whatever dictatorship had previously denied their political and economic freedom, even their existence.

But as explained earlier, there is more to democracy than simply holding an election and more to creating a market economy than abolishing *Gosplan*. Some states exposed to democratic values and free-market forces have collapsed rather than reformed. Much of Africa is a case in point. In the former Soviet Union, some would argue that transition failure is inevitable because “reform programmes have ignored the realities of political power and are indifferent to human behaviour that does not conform to the liberal, market paradigm.”⁸ Lieven reserves particular scorn for the optimists who assumed that simply changing the ownership pattern of the economy would induce restructuring, wealth creation, and, in time, wealth distribution and philanthropy. He quotes Anatoly Chubais talking about Russia’s robber barons “...who steal and steal. They are stealing absolutely everything and it is impossible to stop them. But let them steal and take their property. They will then become owners and decent administrators of this property.”⁹

Such optimism has so far proved to be unjustified. Theft and now capital flight have become defining features of the post-Soviet Russian economy, indeed,

with people like Potanin, Berezhovskiy and Chernomyrdin as role models, how on earth can you tell an ordinary, often unpaid official that it is morally wrong to steal from the state? Andrei Piontkovsky¹⁰ has expressed this sentiment better than most. He has compared the lists of Russia's leading politicians, its leading businessmen and its richest people only to find them practically identical. The oligarchs themselves - not one of whom according to Piontkovsky is a self-made man - openly admit that the only profitable business in Russia is politics. Having won the Presidency for Yeltsin, they expected and largely got their reward. With their chief protector and benefactor Yeltsin now gone, many oligarchs - cheque-books in hand - are seeking protection under new acting President Putin's banner whilst others have secured immunity by buying seats in parliament instead. Politics has thus become a top-down structure devoid of parties, ideology or grass roots support, which form the bedrock of politics in a Western sense. The question now becomes one of whether Russia and other former Soviet republics in a similar mess have already failed the transition test. Maybe they will never make it to the altar. Piontkovsky is in no doubt; "The future is cancelled. There will be only an eternal present in which the country (Russia) is doomed to poverty."¹¹

The Price of Failure

The failure of democracy and liberal capitalism in Central and Eastern Europe, especially in Russia, would be a bitter blow to the West. The clear implication would be that the Western system does not and cannot work well across the globe. Such a failure in Europe, in the heartlands of liberal democracy, would re-ignite issues of isolation, physical security and fear. But if failure is as inevitable as Lieven suggests then the economic and security organisations of the West may as well all pack up and go home - or revert to a former role. Such a move would be a dismal prospect indeed, but might be welcomed by those who see no future role for the institutions of the Cold War. Keith Hartley accepts that NATO's new roles of crisis management, peace-keeping, peace-enforcing, rendering humanitarian assistance and aiding transition - sometimes out-of-area - are likely to attract public support for continued defence funding, but sees all of these activities as "...a further example of the efforts by bureaucracies and interest groups to affect favourably the demand for their services whilst under-estimating or ignoring the costs of these policies".¹²

If intervention in Kosovo and Kuwait had been a failure, if Bosnia had erupted once more into full-scale war (it still might of course), if NATO's humble efforts to assist Partner countries within the PfP, PJC and NUC frameworks were not appreciated, and if on a wider scale there were no transition success stories to point to, then Hartley would be right. It **would** be time for the West to retreat into its Cold War shell. But so far, pro-active engagement has been a (qualified) success. Future plans to create a sort of "Marshall Plan II" for the

Balkans have every chance of aiding economic restructuring and promoting social and political stability in this turbulent region, just as its predecessor did in Western Europe. And whilst the governments and people of Poland, Hungary and the Czech Republic deserve the lion's share of credit for their remarkable transition success, it was the example of the West and a strong desire to belong that provided the stimulus. But even in these three new NATO members and especially further east, transition is work-in-progress. By continuing with this work, the altruistic - and indeed practical - aim is to improve living standards across the continent, which is the essence of economic security in a European context (*see Part 2 of this paper for details*).¹³ The self-interest lies in avoiding the negative, in that dealing with failure might compromise the West's own unprecedented period of security, personal freedom and prosperity. Altruism is self-interest.

PART 2: VIEWS OF AND THREATS TO EUROPEAN ECONOMIC SECURITY

Economic Security

In the Cold War era, economics and security were linked only to the extent that a strong economy provided the wherewithall to fund a strong military, which in turn provided physical security - behind **closed** borders - against invasion or subjugation by a foreign power. If the two words "economics" and "security" were ever used in tandem, it was in relation to **security of supply**, especially of energy and raw materials. The oil price shocks of the 1970s led directly to recession throughout the developed World, but price rises of a similar magnitude over the past year have had no noticeable effect of growth at all, largely because most economies, especially in the West, have become more open, adaptable and diverse. Put simply, they run on information not oil. Nevertheless, the Western democracies were still prepared to oust Saddam Hussein from Kuwait and remain concerned that energy egress routes from the Caspian should head west rather than anywhere else. Individual G7 states such as Germany still have a strategic interest in maintaining stability in individual energy producing states (in Germany's case, Russia) because supply disruption would be irritating and potentially expensive albeit not a direct threat to security. But in overall strategic terms, Western power does not accrue from producing oil and gas, indeed, no major exporter of energy or raw materials in the World today is also a major political player on the global stage, and none has a higher standard of living than the G7.

So although security of supply is still relevant, more consequential economic threats to security of a non-state nature have now emerged. The new liberal, some would say capitalist, paradigm of **open** borders has brought forth the

globalisation of information and markets, and prosperity for those prepared to embrace them. In turn, wealth promotes the creation of a large and politically powerful middle class and, for want of a better term, a “civil society”. But open borders have also aided the proliferation of WMD, the growth in international crime and corruption, and drug trafficking. Environmental pollution is also now very much an international issue, and threat.

Perhaps the biggest threat of all to states that have created a civil society is the envy and resentment of those who have not. In other words, improving living standards equals improving security, or conversely, low or declining standards of living compromise internal security by fomenting social unrest, which may be containable within the nation state or could spill over into neighbouring regions or states (Chechnya and the Caucasus come to mind, as do Yugoslavia, North Korea and Afghanistan). But the process is self-reinforcing, in that unemployment and poverty provoke strikes or other forms of social unrest which lead to less trade, less investment and less growth which in turn leads to worsening unemployment and so on. The poorer people are, the less they have to lose by challenging - perhaps violently - the status quo. But poverty need not be absolute to cause instability. People in the Soviet Union did not become demonstrably less well off in the Brezhnev era of stagnation, they simply became aware of their growing relative poverty *vis-à-vis* the West. The Soviet Union was not therefore a victim of major economic disruption, but, *inter alia*, of a growing discontent that rotted the system from within.

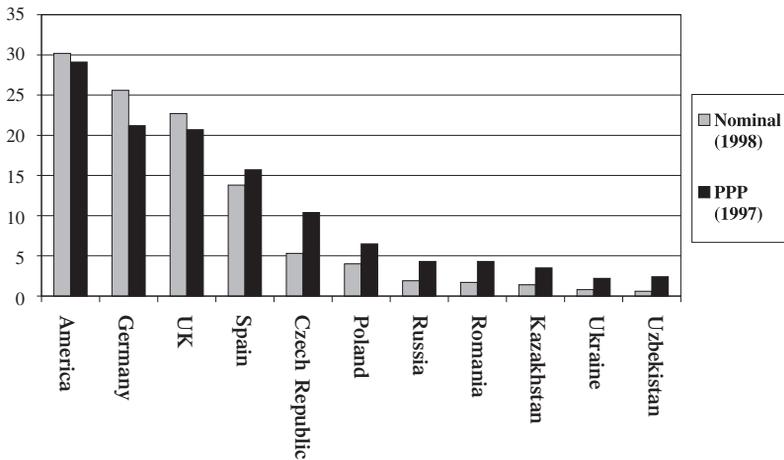
China is an interesting case. Perhaps because it is not a democracy, rapidly growing economic strength is not being fully channelled into rising prosperity for all, but more into both domestic repression and the establishment of a vigorous and expansionist foreign policy that now represents a security risk for most of Asia and a potential security threat elsewhere. Each case is to some extent *sui generis*, but the general, underlying rationale still holds. If in doubt, ask yourself whether the tragic events of the past decade in Yugoslavia would have occurred had that country been as rich as Switzerland?

Economic Weakness

Figure 1 below presents selected World Bank international per capita GDP figures for 1997/98 expressed in a common currency, the US\$, and calculated both at nominal and Purchasing Power Parity (PPP)¹⁴ exchange rates. Even using the latter which account for the greater internal purchasing power of undervalued currencies, the figures reveal just how poor most economies in C&EE and Central Asia are when compared with the West. For example, Russian per capita GDP (PPP) in 1997 was about 7-times smaller than in the US and nearly 4-times less than in Spain. Even just over 10 years ago when this author first started work in this field as a junior research analyst looking at Soviet agriculture, no-one knew for sure exactly how large the Soviet economy

was. But it was practically taken as read that it was the World's second largest after the US. That assessment has now proved to be wildly incorrect and the Russian economy today - expressed in dollars at the prevailing market exchange rate - would not come in the top 30 despite its huge geographical spread, its massive resource wealth and still large population. Even using PPPs, the Russian economy would rank about fifteenth in the World and in per capita terms no higher than about fiftieth.

Figure 1 - Per Capita GDP Comparisons (in '000 US\$)



Values: America - 30.2/29.1; Germany - 25.6/21.2; UK - 22.7/20.7; Spain - 13.8/15.7; Czech Republic - 5.3/10.4; Poland - 4.0/6.5; Russia - 1.9/4.3; Romania - 1.7/4.3; Kazakhstan - 1.4/3.5; Ukraine - 0.8/2.2; Uzbekistan 0.6/2.4.

Source: World Bank

Why Economic Weakness is a Security Risk

Some people might look at this graphic and say; “So what? Is it not a **good** thing that former foes are now impoverished and cannot properly fund their armed forces? Surely this makes them less of a threat.” Were economically strong states either within or adjacent to Europe under the control of autocratic, nationalist despots (a most unlikely combination), then it would be possible to have some sympathy with such sentiments. But otherwise, the security risks for the West that neighbouring states with perpetually enfeebled economies pose are several and significant:

- First, because the whole of society can become frustrated by the sheer complexity and unending nature of change. Widening income differentials

could become socially explosive, as has occurred in parts of Latin America, whilst even the ruling elites feel increasingly impotent in the face of globalising forces over which they have no control. Catch-up with the prosperous West becomes an ever more distant prospect. Under such conditions, the whole rationale of transition becomes discredited, perhaps fatally. “Reform” could be written-off as a failure before it has had a chance to succeed. The result could be a turning away from the “quasi-democratic, half-reformed economy” state that states such as Russia are now at and have gone through so much pain to reach, and, the **emergence of more aggressive, nationalist leaders that would be instinctively anti-West**. Countering such a development would be expensive and eliminate whatever peace-dividend the end of the Cold War has brought. A potentially devastating clash between “culture areas” would then become more likely.

- Second, the danger that people within these failing economies will seek to **emigrate** in greater numbers. An influx of highly qualified young people would of course benefit the West, and this has to some extent already happened. Many thousands of Chinese, Indians and, to a lesser extent, Russians, already staff the top science, technical and computing research centres of America and Europe. Good for the recipient but bad for the donor, merely re-inforcing the cycle of relative economic decline. Should this decline degenerate into meltdown, mass migration could result which would be costly and destabilising for the recipient countries, at least in the short- and medium-term.
- Third, is the export of **crime**. Corruption and organised crime thrive in weak or undemocratic states with transitional legal systems. It also flourishes where there is a residue of overt state intervention in the economy such as export quotas and licensing. Such criminal economic activity has a cross-border security dimension with regard to money laundering and drug trafficking. It also distorts competition and undermines the legitimacy of the state, which may lose its ability to maintain public order and enforce the law as a result. In Indonesia, the state became a family business - with cataclysmic results. In Russia, the “crony capitalism” highlighted by Anatol Lieven has at best distorted, at worst taken over, the economic potential of the state. A by-product is **capital flight** that further stunts investment and growth.
- Fourth, because wealthier, more self-confident states in transition would be economically more diverse, selling consumer and engineering goods rather than just raw materials, energy and heavy industrial goods as tends to be the case at present. For example, oil and gas represent about half of total Russian exports by value, and around one third of all government tax revenues. The West would benefit greatly from the **increased commercial potential** that successful transition would represent.
- Fifth, because a poor state’s greed for cash means that it turns a blind eye to its own arms exporters as they sell advanced weapons and associated

technology to rogue regimes thereby boosting **proliferation**, which is rightly regarded as one of the most critical security problems that the West now faces. Indeed, vendor states in transitional Europe ought to have as great a security interest in keeping WMD out of the Middle East and North Africa as does the West, but advanced military goods represent one of the few saleable items that some states have - short-term economic expediency means that they cannot afford not to sell them.

- Sixth, is the danger that growing **regional autonomy** could get out of hand. When a state fails to provide economic stability, regions within that state - especially those with resource wealth - start to consider secession as a means to escape the mess. Ethnic differences within the same state can also provide the stimulus for secession, as happened peacefully with the “velvet divorce” between the Czech and Slovak Republics. This divorce was unencumbered by an atmosphere of economic failure or collapse. But when ethnic tension is combined with economic turmoil within the same state, the result can be something like former Yugoslavia, most of which has become a costly security nightmare for all for Europe. Trying to put out the fires after they have started is - as we are witnessing in Bosnia and Kosovo - a thankless, difficult and expensive task. And there is a military angle to this as well. The increasing inability of federal governments to fund the defence budget means that regional military commanders must and are seeking support at the regional level. Remember the old adage; “Whoever pays the piper calls the tune.”
- Seventh, and linked, is the fact that economic weakness leads to a **degraded military**. The main related security risks are that internal conflicts might be uncontrollable within a state’s borders and spill over into neighbouring states. This in turn heightens the risk of non-European powers such as China and Iran intervening to safeguard their interests or security. In such a scenario, the degraded conventional force serves to **reduce the nuclear threshold**.
- Eighth, and finally, because rich states can afford - indeed their people insist that the money be spent - to protect the **environment**. Of course, the West is responsible for far more carbon emissions than any other “culture-area”, but its cities are significantly cleaner whilst trans-national catastrophes on the scale of the Aral Sea and Chernobyl could only occur in a politico-economic environment characterised by autocracy and distortion. (*Or am I being complacent here?*)

But just as the economic weakness of many transition states raises security concerns in Western Europe and further afield - to the extent that they justify pro-active intervention by the West in defence of its own interests - the overwhelming economic might of the West, America in particular, is perhaps seen as a threat in other “culture-areas” where the hegemonic power of “Western” ideology in an increasingly unipolar world is not welcome. The West, as global hegemon, is seen to be imposing a common yardstick, a set of value judgements - capitalism, democracy, individual responsibility, unfettered markets, etc. - that

some other states may feel uncomfortable with and which threaten other more statist, nationalist and socialist value-judgements which they - or at least their ruling elites - may not wish to abandon, even though this means abandoning the gift of mobility provided by the inventor of the wheel. If one is at the wrong end of a bar chart like **Figure 1** - a perceived victim rather than beneficiary of the hegemonic world order - a decision needs to be made whether to join. Let us review the evidence from a different perspective.

A Reverse View of Transition

Maintaining an autocratic-style government and state control over the economy has some attractions, in that a state is able to control its own destiny, it can ensure that basic needs are catered for (so long as the state has something to export that the rest of the World wants), it can hide inflation and unemployment and can give an outward impression of stability. But at a cost. Such a system leads to massive inefficiency and waste, satisfying consumer preferences becomes a largely arbitrary process, the economy becomes brittle and society immobile with neither being able to adjust to changing global conditions, unaccountable and corrupt elites asset-strip the wealth of the state, and living standards for the majority stagnate and decline relative to the hegemonic West.

On this basis, making the transition to an open, democratic and market system would seem to be an obvious choice. But transition can be traumatic. Many old, inefficient industries need to close down thereby increasing unemployment and poverty for an extended period. In a new competitive environment, many are unable or unready to compete so income differentials can widen greatly. The economy also becomes subject to sudden fluctuations in capital flows, the stock market, exchange and interest rates over which the government has little or no control. And finally, new institutions necessary to manage the market and give it a sound legal basis take time to develop, with crime and corruption filling the void. Thus transition can, and in the former Soviet Union has, given an overall outward impression of extreme instability which is why so many now wish to reverse or in some way alter the process and why the historical inevitability of transition success expressed by Fukuyama and others could be wide of the mark.

But it would also be wrong to give up hope as Lieven and Piontkovsky appear to have done. In Russia, the security risks inherent in any prolonged period of economic weakness are well understood, indeed, the new draft Russian Military Doctrine - despite its more confrontational and anti-West bias¹⁵ - identifies **significant threats to national security as being internal**, emerging from, *inter alia*, acute economic and social problems. Both in the earlier document and to my knowledge in the new draft as well, the internal economic problems were/are further specified as being the increasing numbers living below the poverty line, the stratification of society and widening wage differentials,

mounting wage arrears, and the escalation of social tension. This is the “civil society” dimension to economic security that was alluded to at the beginning of this part of the paper. And if Russia’s leaders are prepared to compromise on (largely false) sovereignty by legalising the US dollar and allowing foreign banks free rein - as advocated by Hanke, Schuler and Selgin (*see footnote 6*) - there might be a way to create this “civil society” in Russia after all.

Moreover, many within the Russian leadership are also now aware that military spending should for the first time be driven by the economic possibilities and/or limitations of the state and be what Russia can reasonably afford rather than what the military leadership think they need. The fall in the Soviet/Russian military burden from a ludicrous 20% or so of GDP in the late 1980s to less than 5% of GDP in 1998 has been one, maybe the only one, success of the Yeltsin regime. This has indeed been a radical departure from the past when military demands ran the Soviet economy to the extent that a war economy was maintained even in peacetime. The problem is that this debate remains unresolved with most of the military and many in parliament still insisting that spending should be whatever it needs to be to counter all threats to Russia’s security, which, in the light of an expanding NATO, the rise of Islamic fundamentalism and a resurgent China, they naturally believe to be external as well as internal. Russian military spending probably hit rock bottom in 1998 and is now, because of war in the Caucasus and other factors, beginning to rise again in real terms.

Final Thoughts

To conclude, I think it would be wrong for the West to abandon Russia or any other transition state in difficulty until fundamental internal debates such as the one outlined above are resolved, and this will not happen overnight. Transition cannot occur let alone succeed unless and until they are, with the desire to be materially better off acting as the main stimulus. States undergoing transition thus require a consensus and a commitment to real economic reform across the political and social spectrum that some have not, so far, acquired. In this respect, economic transition is to some extent a **state of mind**. To succeed, a state must want to succeed and in some transition economies it may be a generation or two before the national mind-set is made up. In Russia and some other parts of the former Soviet Union, it is not only crooks who have prospered. Many thousands of young people have enjoyed a decade of unprecedented freedom to shape their own lives. As Fred Hiatt reminded his readers in the *Washington Post*: “Only when (this) generation comes to power will we know for sure whether or not Russia is lost”.¹⁶

But in some societies, individual wealth (and especially individual freedom to acquire wealth) is not considered to be important, indeed, in religiously fundamental societies, such behaviour would be considered immoral or even

evil. Maybe Huntington has a point - blood, faith and cultural kinship are more important than economics and politics in defining societies and/or the state structures in which they are given form. Even in culturally unique societies such as Confucian China that also happen to want to grow rich, some everyday features of the West - such as drug abuse, juvenile crime and the pervasive influence of big business in all walks of life - are not seen as mere unattractive spots on an otherwise beautiful face, but as defining features of Western society. Moreover, in the short period of American-led Western global hegemony (post-1945), the better-off have prospered mightily whilst the very poor have both multiplied in number and become worse off in both absolute and relative terms.¹⁷ The West may be more influential than ever before as a model to follow, but some would view Western society as existing in a "moral vacuum" which they may abhor and might even like to fill.

At present, no other culture-area is close to challenging Western hegemony, but that does not necessarily make other non-western cultures unviable, as Fukuyama suggested (*see again paragraph 1*). Who knows, in 50 years time, the World may be looking at a very different set of hegemonic value-judgements (imposed by China perhaps) and it will be the West that is faced with the sort of agonising choices now facing economies in transition. Indeed, there are very few certainties in this rapidly changing World. As democracy spreads, it would be rash to assume that it will cover the entire globe and ridiculous to suppose that all will agree on all matters. Disagreements between existing and future democracies will occur and some might even lead to war. Nevertheless, at this moment in time, the security and prosperity of the Western democracies would be greatly enhanced by successful economic transition in those parts of Europe that still lag behind, the Balkans and the former Soviet Union in particular. On balance, the West is right to force the pace of change - so long as this is done more through example than coercion and so long as no one assumes that history is dead.

Notes

- 1 "The End of History"; *National Interest*, 1989.
- 2 As quoted in *The Economist*, 31.07.99.
- 3 "The new Geopolitics". *The Economist*, 31.07.99.
- 4 *Financial Times*; 26.07.99.
- 5 See "Russians and Money : The cash don't work"; *The Economist*, 19.12.98.
- 6 George Soros in his famous letter to the *Financial Times*; 13.08.98.
Kurt Schuler and George Selgin. "Replacing Potemkin Capitalism", *Policy Analysis*, 07.06.99.
Steve Hanke. "Only the Dollar Can Rescue Russia". *Wall Street Journal*, 24.08.98.
- 7 "The Clash of Civilisations". *Foreign Affairs*, 1993.
- 8 Anatol Lieven. "History is not bunk"; *Prospect*, October 1998.
- 9 Quote reportedly by Anatoly Chubais who was responsible for Russia's privatisation programme, including the notorious "shares for loans" scheme by which the business elite acquired, at prices untested by the market, much of the resource wealth of Russia. *Source as above*.
- 11 Andrei Piontkovsky. "What went wrong - Asian Flu or Russian Pneumonia?" *PRISM*, published by Jamestown Foundation. 18.06.99.
- 11 Source of quote as above.
- 12 Keith Hartley. "State Budget in a Changing Economic and Security Environment". 1998 NATO Economics Colloquium. "*Economic Developments and Reforms in Cooperation Partner Countries : The Role of the State with Particular Focus on Security and Defence Issues*." Published by NATO Economics Directorate and NATO Office of Information and Press. ISBN: 92-845-0108-3. (An example of NATO upholding the democratic principle of free speech!)
- 13 One could argue that if the West were **really** serious about aiding transition, it would remove its import tariffs on agricultural produce and heavy industrial goods. This would do more to spur economic growth in C&EE than any amount of development aid or structural loans advanced through the international institutions.
- 14 The exchange rate at which a basket of (near-) identical goods costs the same in two different countries.
- 15 Than the previous 1993 draft.
- 16 "Only Time Will Tell if Russia's Great Experiment has Failed." Article re-printed in *International Herald Tribune*, 30.08.99.
- 17 See Jeffery Sachs. "Helping the World's Poorest", *The Economist*, 14.08.99.