

Russia's Place in the World

An Exit Option?

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In 1992, Russia's new leadership, led by Boris Yeltsin, explicitly committed to making Russia part of the Western hegemonic system. By the following year, and for the decade after, Russia under President Yeltsin and, from 2000, under Vladimir Putin increasingly identified itself in opposition to U.S. hegemony, but remained agreeable to participation in some kind of multipolar collective hegemony led by the West. Since 2003, however, a "new" Russia has emerged, interested neither in participating in Western hegemony nor in actively balancing against or undermining it. Instead, the new Russia, committed to being authentically Russian and not a kind of Western or Eurasian hybrid, has chosen the exit option, a strategy of selective disengagement from the West and non-participation in its hegemonic order.

Two conclusions emerge from an analysis of Russia's material circumstances and the emergent new Russian identity. The first is that Russia is materially situated in the semi-periphery of the world capitalist economy; it is a regional economic power and yet a raw material appendage of the West. Russia's semi-peripheral nature tracks closely with only the most selective engagement with Western institutions, as if it were trying to avoid participating in the reproduction of the Western hegemony of which it is a subordinate, but supportive, part. Secondly, a new Russian identity of "authentic Russia" is emerging, a Russia that consciously understands itself as apart from the West and materially capable of defending its own unique Russian self from Western interference.

Russia's Material Position

Russia's semi-peripheral status is evident in statistical comparisons with the United States and the West on a host of relevant indicators. Russia's population of 143 million

is less than half that of the United States and is declining at a rate of almost half a percent per year, while the population of the United States increases one percent annually. Russia's infant mortality rate is twice that of the United States; Russian life expectancy, at 68 years, is 10 years less.

Economic indicators paint a similar picture. Russia's gross domestic product is about 10 percent of the United States, while its per capita GDP is less than 20 percent. Its accumulated foreign direct investment (FDI) of \$324 billion (2007) pales in comparison to the U.S. total of just over \$2 trillion. While FDI in Russia continues to grow, it remains concentrated in extractive industries. Moreover, about 70 percent of current investment comes from just two sources, Cyprus and the Netherlands, suggesting repatriated Russian capital.

Russia's emergence as a significant source of foreign investment in its own right underscores its semi-peripheral status. Russian foreign investment, totaling \$257 billion in 2007, began in the 1990s and is concentrated mostly in the Commonwealth of Independent States (CIS). Armenia, Belarus, and Uzbekistan account for over three-quarters of Russian investment, which includes electricity supply monopoly RAO UES's investment in energy distribution systems in Armenia, Georgia, Moldova, and Ukraine; Gazprom's investments in energy infrastructure in Kazakhstan and Moldova; and cell phone companies VimpelCom and AFK Sistema, which, together, control 40 percent of the CIS market. According to the Boston Consulting Group, only seven Russian companies are "global challengers," compared to 21 from India and 44 from China.

Russia's relative isolation from the rest of the world capitalist economy is evident in the extremely small number of foreign affiliates of multinational corporations located in Russia. Between 1993 and 2005, Russia had 1,200 affiliates, whereas China had 281,000. Russia's preference for isolation is especially apparent in the area of hydrocarbon recovery. Controls on foreign capital have delayed the exploration, development, and recovery of vast energy reserves. The huge reserves projected in the Arctic Ocean off of Russia's northern continental shelf, for example, are out of reach without technologies and expertise developed in the North Sea fields of the United Kingdom and Norway.

Still, Russia's natural resources are among its greatest assets. It has the largest oil and natural gas reserves outside the Middle East. Its oil production in 2008 was 47 percent greater than that of the United States. Of Russia's \$468 billion in total export earnings in 2008, two-thirds came from energy deliveries, one-third of which went to the European Union. In terms of tonnage, however, Russia has increased annual production by only 4 percent since 1990. Its own production is peaking for the short term, and Gazprom has to rely increasingly on the purchase of natural gas from Central Asia and Azerbaijan to meet European demand. Still, this is expected to be a short- to medium-term problem, as gas extraction is expected to grow more than adequately in the future. Russia also provides the EU with a quarter of its coal imports. Since 2000, the volume of these exports has grown 250 percent. Russia's foreign trade overall is also centered on Europe. In 2008, nine of its top ten export markets were in Europe, accounting for over 40 percent of Russia's exports. Six of Russia's top ten sources of imports are also European countries.

Unlike the East Asian "tigers," whose states adopted the managed market approach

to economic growth and development, Russia has adopted a strategy that privileges isolation over competitiveness. Instead of using state-directed investment to funnel capital to industries aiming to create competitive export producers in the medium to long run, it has relied on revenues from energy and raw material exports to subsidize the price of energy and electricity for otherwise uncompetitive industries and to maintain lower housing, heat, electricity, and transportation costs for average Russians. The Balassa index of “revealed comparative advantage,” a rough measure of competitiveness, shows that Russia is competitive only in raw materials and energy. Finished products rarely figure in the mix, with the important exception of weaponry.

Levels of productivity and competitiveness in Russia lag far behind the West. In 2007, the United States had 241,000 resident patent applications to Russia’s 12,000; the United States has 2,400 scientific journals, while Russia has 10. Russia’s human capital is aging and in numerical decline. According to the 2008 *Times Education Supplement* rankings of the world’s top 100 universities, Russia had none, while the United States had 37. Along with education, information technology and communications infrastructure are critical to an information economy. While land-based telephone lines are fast being eclipsed by cell phones, they are still critical for internet access in places that have not yet upgraded to digital. By that measure, Russia’s 31 telephone lines per 100 inhabitants places it behind the United States’ 54 in 2007 (U.S. landlines peaked in 2000, reflecting its transition to broadband and cable, while BRICs are either stable or growing their terrestrial telephony). In 2007, Russia had 21 internet users per 100; the United States had 74. Russia has three broadband subscribers per 100; the United States has 24. Russia has 13 personal computers per 100 inhabitants, while the United States has 81. The 2009 Network Readiness Index of the World Economic Forum ranked Russia 74 of 134; China, 46; India, 54; and the United States, third.

Russia and the WTO

Russia’s recent decision to forego membership in the World Trade Organization perfectly exemplifies Moscow’s search for an exit option. Russia, dependent on raw material and energy exports, can expect little benefit from tariff reductions, as foreign markets erect no barriers to Russia’s most important exports. Instead, by most calculations, including that of the World Bank, the chief economic benefits of WTO membership will come from the internal reforms it promotes. However, a newly authentic Russia has no interest in pursuing such reforms. For example, World Bank economists point to the liberalization of FDI in services as a potential gain for Russia through accession to the WTO. However, the risk of penetration by Western insurance companies, retail banks, and other services into Russia’s domestic market and society is too high a price to pay; daily interactions with the West can only erode Russia’s new and vulnerable identity. Better to pay more for mortgages and life insurance than expose Russian firms to competition and Russian society to Western soft power. Since Russia is not pursuing a neoliberal economic model of competitive export-led industrial growth, making domestic industries more price-efficient has no net benefit.

Russia and Globalization

One way a hegemonic order reproduces itself is through the education, training, and

cultivation of global elites, who will govern and manage their native country's polities and economies. Russia, however, is not participating in these institutions of globalization. Business schools are one site for the cultivation of economic elites who subscribe to the Western neoliberal model. No Russian business schools made the *Financial Times'* top 100 in 2009. Russia's isolation is also reflected in the low, and still decreasing, number of international nongovernmental organizations operating within its territory. It also hosts relatively few international meetings. In 2006, there were 8,900 such meetings; Russia hosted 75, while the United States hosted 900. In international postal traffic, Russia ranks second to last, with only 32 million letters crossing its border in 2007, compared to 800 million to and from the United States. *Foreign Policy* magazine's "globalization index" in 2007 ranked Russia 62 out of 72 countries assessed.

New Russia's Identity

Russia's identity-building project has been underway for 17 years. In 1992, its elite identified with Western hegemony, manifesting itself in the efforts of Yeltsin, Gaidar, and Kozyrev to remake Russia into a liberal democratic market economy and a willing ally of American power in the world. The collapse of this project in December 1992 was caused by economic misery, corruption, violence, miserly Western aid, and indifference to Russian efforts to be that willing ally. With the liberal Russian identity discredited, a centrist Russia identity emerged, envisioning Russia as part of Europe, a social market economy, and dedicated to restoring Moscow's authority over the rest of the country and restoring Russia's participation in world politics as one of several great powers co-managing the system and restraining U.S. unilateralism.

September 11 caused a brief pause in this trend, as the United States declared Russia its single most important ally in the war on terror. For a few months, Russian elites understood themselves and their country in a neo-Soviet fashion, as if once again Washington and Moscow were going to settle global security issues themselves, fighting a global war on terrorism and managing the proliferation of weapons of mass destruction. However, the unilateral disregard of Russia's interests by the George W. Bush administration, manifest in the abrogation of the Anti-Ballistic Missile (ABM) treaty, the invasion of Iraq, further expansion of the North Atlantic Treaty Organization, and support for color revolutions in Georgia, Ukraine, and Kyrgyzstan, ended this brief neo-Soviet interlude.

Since 2003, a new Russian identity has emerged, one that has broad and deep social support. This is a Russia that no longer defines itself in terms of Western or Eurasian "Others," but sees itself instead as restoring Russia's "natural" identity. Its components include a strong and centralized authoritative state in Moscow, social protections for the population, secure sovereign borders, and, consequently, engagement with Western hegemony on a strictly selective basis. While this new Russian identity has absolutely none of the universalist pretensions of Soviet communism or Western liberalism, it promises a very powerful, albeit local, counter-hegemonic ideology.

Conclusions

A semi-peripheral player in the world capitalist economy, existentially secure behind its

nuclear arsenal, and a possessor of enormous natural resources desired by the core members of the Western hegemonic system, Russia has become a deliberately self-limiting participant in the perpetuation of that system.

Nuclear weapons have given Russia the ability to contemplate an exit from Western hegemony, if not the means to challenge it. The size of the Russian economy is large enough to permit contemplating an import-substitution strategy on a continental scale, permitting a market economy with Russian characteristics such as social protection, a strong state, centralized order, and reduced interaction with, and dependence on, the West. This aids Russia's exit from Western hegemony. Foreign direct investment in Russia is permitted on strictly Russian terms and is reflected in the low multinational corporate presence in Russia.

Global demand for Russian energy and metals is foreseeable in the medium to long term. Price declines are tolerable, as the demands of Russian society are not reducible to maximum prosperity but are leavened with ideas of social protection, secure borders, and Russian uniqueness, all advanced by a strong state.

Russian foreign direct investment abroad also reinforces Russia's role as a semi-periphery of Western hegemony. Russian capital penetrating the weaker economies on its borders is precisely the kind of material advantage offered by the world capitalist economy which justifies Russia's participation in and support of it. The only friction in this area will be any continued Western efforts to encourage regime change or NATO membership on Russia's borders.

Russia's self-limiting position in Western hegemony appears quite sustainable, both materially and ideationally. One could argue that, for the very first time since Soviet collapse, Russia's material power, elite national identity project, and mass social identity are reinforcing each other, sustaining Russia's trajectory out of the West.

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