

## THE AUSTRALIAN

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# Aggression in Crimea is a sign of Russian weakness

HENRY ERGAS THE AUSTRALIAN MARCH 10, 2014 12:00AM

**FAR from being an emerging superpower, Russia is a weak state, wracked by cronyism and corruption, and overly reliant on exports of oil and gas. That hardly means Russian aggression in Ukraine can be ignored or condoned. But detestable as he may be, Vladimir Putin is no Hitler and the Crimean peninsula is not the Sudetenland.**

At the heart of the crisis is the mess that emerged from the sudden collapse of the Soviet Union. In a few cases, such as Uzbekistan and Turkmenistan, communism was succeeded by new regimes that were fully authoritarian; and in a few others it was replaced by fully democratic polities, embracing political and economic liberalism.

But the predominant form of government that developed in the successor states combined elements of democracy and dictatorship, while featuring economic reforms that introduced market forces while corrupting their workings and undermining their legitimacy.

Those regimes are inherently unstable. Offered the pageantry of democracy, people naturally demand its substance; and given the tools of dictatorship, rulers all too readily seek its shelter. That instability has been especially pronounced in countries such as Georgia, Moldova and Ukraine which inherited, from the arbitrary boundaries that defined the Soviet republics, diverse populations that are geographically segregated and lack a shared history of “stateness”.

The absence of any consensus in these countries on each nation’s geographical reach, or on the rights associated with citizenship in the national community, has stymied the formation of broad governing coalitions. At the same time, their location at the borders of the European Union on the one hand and of Russia on the other has provided competing internal groups with rival external reference points and sources of support, entrenching the divisions. The result has been to doom attempted transitions to democracy, such as those that followed Georgia’s Rose Revolution of 2003 and Ukraine’s Orange Revolution of 2004. But the deep divisions have also impeded durable transitions to fully authoritarian rule. Instead, politics has acquired a “winner takes all” flavour which encourages pillage, rather than wealth creation, as the winners in each round amass nest eggs for when they lose power.

The Ukrainian president Viktor Yanukovich, for example, allegedly embezzled some \$8 billion a year, both for his immediate family and as a war chest to pay off allies and accomplices. The consequence is a barren treasury and shockingly poor economic performance, with Ukrainian per capita incomes growing by less than 2 per cent a year over the last two decades. Little wonder then that as collapse loomed, Yanukovich tried to play off Russia and the EU; but that Putin offered the best deal hardly means he welcomed what was plainly a debacle. As for the occupation of Crimea, it is no more proof of Russia’s power than are the breakaway enclaves of Transnistria, Nagorno-Karabakh, Abkhazia, and South Ossetia.

On the contrary, these frozen conflicts attest to Russia’s inability to define a workable regional order. Moreover, the limitations on Russian power are only likely to become more acute as the sources of its recent prosperity fade.

That prosperity has rested on two pillars: the far-reaching economic reforms that followed Russia's 1998 financial crisis; and increases in oil and gas prices, which more than doubled Russia's terms of trade from 2002 to 2008. But those prices will revert towards their long-term levels, while the one-off gains from the reforms have been exhausted.

And to make matters worse, Putin's moves to replace the first generation of "oligarchs", who were often highly efficient entrepreneurs, by his cronies has degraded Russia's industrial capabilities, which were already severely restricted by its crumbling infrastructure. Rampant corruption, evident in the \$50 billion cost of the Sochi Olympics, only adds to the woes, not least by making projects such as even basic road works prohibitively expensive.

Putin has papered over the problems by running down foreign exchange reserves and by allowing a deterioration in Russia's fiscal position. But investors are not easily fooled, with the market capitalisation of the Moscow stock exchange, expressed as a proportion of GDP, halved from its 2007 level. And the 10 per cent drop the market suffered as the Crimean crisis broke has highlighted the fact that Putin's Russia, unlike Stalin's USSR, is heavily dependent on the world economy. So has the fall in the rouble, which will come under even greater pressure as the American recovery increases world interest rates.

None of that means Putin will be easy to control. Indeed, Russia's difficulties may encourage further adventures, as will the fact that the fragments from the fall of the USSR are still far from being fully resolved. And as the turmoil they cause continues, so will the calls for a strong response.

Those calls are fully understandable; however, seen over the longer term, it may be that the West's best response is to deepen the links that join the successor states to the world economic system. That the EU treated two-thirds of Ukraine's exports as "sensitive", limiting their access, merely worsened the internal conflicts; opening markets would not only encourage a turn to the West but also make politics in the successor states less of a zero-sum game.

Obviously, that is not to claim that freer trade and investment are a panacea that can transform the successor states into liberal democracies. For history offers no magic wands. At times, it is marked by bursts of remarkable synchronisation among countries; the spread of freedom in the 1980s and 1990s was a glorious moment of such synchronised change. But those phases are interspersed by periods of greater diversity, backsliding and chaos.

With the legacies of the Soviet empire's demise continuing to play themselves out, it is more of that ugliness that lies ahead.

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