

**Appendix A**  
**The Evolution of the World Economy: Trends and Potential**  
**Carter Page**  
**Introductory speech transcript**  
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# The Evolution of the World Economy: Trends and Potential

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Before we get started, it's worth highlighting a bit of background regarding some of the work that I will speak with you about today. For the last fifteen years, I have been researching, teaching, and writing about certain fundamental trends in the world economy which have continued to evolve throughout this period and the years immediately preceding it. Although this work has been separate from my day-job in the investment arena, it has given me many opportunities to present outside lectures across Russia, Europe, Asia and the United States. While I've always valued the constructive dialogue throughout my many lectures at several of the top universities in Russia including MGIMO, Moscow State University and HSE, I am particularly grateful for my relationship with the faculty and staff at New Economic School. So I

would like to begin by thanking NES for this invitation. I also appreciate Rector Shlomo Weber giving me the opportunity to take a few minutes to have a substantive discussion with NES students in this lecture prior to tomorrow's commencement ceremony.

I would also like to reiterate Shlomo's point that I am speaking with you today as a private citizen and business executive, so this lecture only reflects my own ideas which I have developed over years past. Therefore, the ideas discussed do not necessarily reflect other people or organizations that I may be working with at the present time.

Consistent with most of my past experiences with academia, I have always found an interactive dialogue to be more mutually beneficial. Like the format tonight, most of my university lectures have been taught after working hours and have brought in participation from real-world professionals – either in the evening or on the weekends, including teaching many executive education classes. In this regard, I appreciate the many graduates of NES who have taken the time to join tonight's conversation and bring their perspectives as practitioners. Since I see many friends and colleagues in the audience this evening, apologies in advance if my introductory lecture prior to this discussion may be repetitive as I know a number of you have heard these ideas before in several speeches I've given in this city over the past decade.

For reference and in preparation for tonight's conversation, here is a summary of the main topics I plan to cover:

## Topics for discussion

- 1) How is capitalism defined today?
- 2) What is the proper balance between central state control and “liberal” structures of governance?
- 3) What are constructive methods of international cooperation today?
- 4) How can patterns of mutual respect, equality and mutual benefit impact international relationships?

As prevalent definitions of capitalism and related theories of political economy have been either discarded or fundamentally rewritten in recent decades, the trends and potential of the world economy has often followed suit. Offering useful case studies of these dynamics, Russia, the U.S., China and Central Asia have to varying extents each continued to adjust to new practical realities through subtle shifts in governance. Using alternative techniques and approaches, these countries and regions have each to varying degrees and in different formats balanced state control of economic development with free-market principles.

These trends have variably been reflected in Central Asia’s relations with Russia, China and other neighboring states. Meanwhile, the United States and other developed powers have often criticized these regions for continuing methods prevalent during the Cold War. Yet ironically, Washington and other Western capitals have impeded potential progress through their often hypocritical focus on democratization, inequality, corruption and regime change.

I'd like to start off with a story which helps to illustrate some of these dynamics. It's great to be here at Moscow's World Trade Center today, but a few years ago the senior management of a leading Russian company held their investor day near another World Trade Center – the one in lower Manhattan. Although this annual shareholder event had routinely been held in the same place for many years, the periphery of its location had recently emerged as a site of revolution in the changing shape of governance worldwide. In Zuccotti Park, Occupy Wall Street started a wave of protest action in 2011. Originally focused on exposing injustice, inequality, and corruption in the United States, it would spawn similar events in London, Moscow and across Europe in the period that followed. The investor day had become a major event in the annual emerging market investor calendar and the location near Zuccotti Park was particularly symbolic of relative changes seen over the past two decades. However, similar shareholder meetings are often held in New York by their peers including Kazakhstan's KazMunaiGas, Russia's Rosneft, PetroChina and other state-controlled energy companies during the course of the year.

While the location of the company's investor day and Occupy Wall Street meetings were physically adjacent, their substance and tactics reflected distinct differences. As the Occupy demonstrations had focused on exercising verbal instruments of power, the company's meeting remained concentrated on actions that its employees had recently taken. The Russian company outlined its recent steps to expand in new production regions, introduce an array of innovations, improve energy efficiency and lower carbon emissions. There was relatively little evidence that many members of the U.S. Congress or the Presidential Administration chose to make the short trip in order to participate in meetings with the Occupy protesters. Despite the 4,700 mile flight

or over twenty times greater than the distance from Washington, the company's management travelled to engage in a beneficial dialogue with U.S. investors.<sup>18</sup>

The diversity of alternative perspectives that produced and criticized the Occupy Movement also stand in sharp contrast to the pervasive disapproval amongst Western scholars and other experts regarding standards of governance in Russia, China, and Central Asia. Previewing the more adverse reviews that lie within recent books and reflecting a broad consensus amongst experts, some of the latest popular titles in the scholarly literature have referred to “Chaos, Violence, Dynasty” and “Predatory Regimes”.<sup>19</sup> As once noted by Jack Fuller who recently passed away last month, these patterns follow broader trends in the mainstream Western discourse by which, “Nakedly emotional approaches to news, often involving expression of opinion and lacking verification of factual assertions, gained both audience and credibility.... The newest or most negative information, being most available to the mind, is often taken to be the most significant, when in fact it may be trivial or beside the point.”<sup>20</sup>

In his seminal Long Telegram of February 1946, a government bureaucrat named George Kennan famously argued that, “At bottom of Kremlin's neurotic view of world affairs is

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<sup>18</sup> Gene Marcial, “Obama, Congressional Leaders Must Meet With Occupy Wall Street Leaders,” *Forbes*, October 10, 2011. [<http://www.forbes.com/sites/genemarcial/2011/10/10/obama-congressional-leaders-must-meet-with-occupy-wall-street-leaders/>]

<sup>19</sup> Eric Max McGlinchey, *Chaos, Violence, Dynasty: Politics and Islam in Central Asia*, Pittsburgh: University of Pittsburgh Press, 2011. Scott Radnitz, *Weapons of the Wealthy: Predatory Regimes and Elite-Led Protests in Central Asia*, Ithaca: Cornell University Press, 2010.

<sup>20</sup> Jack Fuller, *What Is Happening to News: The Information Explosion and the Crisis in Journalism*, Chicago: University of Chicago Press, 2010, 2-80.

traditional and instinctive Russian sense of insecurity.”<sup>21</sup> While the perspectives of leaders in Russia and the CIS countries have fundamentally advanced in recent decades, the West’s combination of a nearly universal critical tone and continued proactive steps to encourage leadership change overseas may understandably advance a residual level of insecurity. Today, a broad Western consensus has defined these societies as largely state controlled, ridden with corruption or both. Although that may in some ways be partially true in any country including in the United States, recent history has exposed opportunities to build upon mutual interests in ways that are often hidden by this intolerance.

### **Proactive steps toward mutual respect, equality and mutual benefit**

The same week as that company’s investor day in New York, China's then Vice President Xi Jinping gave a speech to senior U.S. Government officials and business leaders at the Marriott Wardman Park Hotel in Washington in February 2012. As heir apparent to President Hu Jintao whose term was drawing to an end, Xi’s visit was closely watched in the United States and around the world. During his speech, he suggested four steps that the U.S. and China could take to improve bilateral relations. In essence, each of his points highlighted not only philosophical differences with the U.S., but also the alternative tactics that China has taken in its approach to international affairs and investment policy in Central Asia and worldwide.

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<sup>21</sup> George Kennan's "Long Telegram", February 22, 1946.  
(<http://www.gwu.edu/~nsarchiv/coldwar/documents/episode-1/kennan.htm>)

First, Xi Jinping noted the central importance of steadily increasing mutual understanding and strategic trust. He quoted a Chinese saying, "Without trust, one can achieve nothing."<sup>22</sup> This essential idea captures a key insight for U.S. analysts who have been confused by the reception that American leaders have received in Russia over recent decades. While Washington has historically taken proactive steps toward initiating regime change in the former Soviet Union, Beijing has displayed a high level of tolerance as particularly seen in this region.

Second, Vice President Xi suggested that both parties should respect each other's core interests and major concerns. He quoted the first U.S. President George Washington who once noted that, "Actions, not words, are the true criterion of the attachment of friends". The dichotomy between China and the U.S.'s strategies for investment and foreign policy worldwide has largely centered on these two alternative approaches. The specific examples and related data in the research I have completed show how China has primarily focused on actions, most often in the form of hard investment. In contrast, the U.S. and other Western powers have sought to cure the perceived political shortcomings of Central Asian states. It has done so by attempting to remedy professed alternative tendencies toward chaos, violence, and dynasty in these countries. During recent U.S. Administrations, such objectives have been pursued as the strategy for waging war in Afghanistan remained a high foreign policy priority.

Third, then Vice President Xi suggested that the two parties should work hard to deepen mutually beneficial cooperation. As similarly seen in China's priorities in the former Soviet Union, he sharply focused his remarks in Washington on opportunities to increase trade which

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<sup>22</sup> More recently, these concepts have been similarly explored in Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity*, New York: Free Press, 1995.

had remained extremely unbalanced for many years. Finally, he encouraged efforts to steadily enhance coordination and cooperation in international affairs and on global issues. At the conclusion of his remarks, he expressed hope that “the United States will respect the interests and concerns of China and other countries in this region.” This final point closely related to his initial suggestion for mutual understanding and strategic trust.<sup>23</sup>

Similar principles were advocated by President Vladimir Putin in an Executive Order on foreign policy signed the day he began his third term on May 7, 2012. In beginning a section regarding the United States, his first point called for policies based on, “principles of equality, non-interference in internal affairs and respect for mutual interests.”<sup>24</sup>

Mutual confidence, mutual benefit and equality would become explicitly engrained in Article 5 of the June 2001 Declaration on the Creation of the Shanghai Cooperation Organization (SCO).<sup>25</sup> Acting with other member states, Russia and China have used this international forum as an instrument for re-balancing U.S. policies. In responding to a U.S. strategy that has been interpreted as hostile, the forum and its members have built upon value and broadly-held principles that may be deemed as reasonable. A failure of U.S. analysts and leaders to consider

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<sup>23</sup> Speech by Xi Jinping, “Work Together for a Bright Future of China-US Cooperative Partnership,” Washington DC, February 15, 2012.

[<http://www.fmprc.gov.cn/eng/wjdt/zyjh/t910351.htm>]

<sup>24</sup> Vladimir Putin, “Executive Order on measures to implement foreign policy,” Kremlin website, May 7, 2012. [<http://eng.kremlin.ru/acts/3764>]

<sup>25</sup> William Cole and Erik G. Jensen, “Norms and Regional Architecture: Multilateral Institution Building in Asia and Its Impact on Governance and Democracy,” in Michael J. Green and Bates Gill, Editors, *Asia's New Multilateralism: Cooperation, Competition, and the Search for Community*, New York: Columbia University Press, 2009, 264-265. “Declaration on the Creation of the Shanghai Cooperation Organization,” Russian Ministry of Foreign Affairs website, June 15, 2001. [<http://www.in.mid.ru/BI.nsf/arh/4255347F7E3D3DD643256A720052A1C8?OpenDocument>]

these principles has often allowed Washington to disregard proposed ideas that are actually not contrary to America's interests.

Previously, President Hu Jintao had similarly said that China hopes to work with Kazakhstan under, "The principles of mutual respect, equality and mutual benefit and as always, to increase good-neighbor relations, deepen mutual trust, and improve cooperation mechanism so as to deepen pragmatic cooperation in economy and trade, energy and non-resources sectors."<sup>26</sup>

Echoing many of the same points and a similar tone, China's top legislator Wu Bangguo told Uzbek President Islam Karimov in September 2011 that future cooperation between the two countries should be based on these principles.<sup>27</sup> The week after the Chinese Vice President's speech, Foreign Minister Yang Jiechi used equivalent words in an interview commemorating the twentieth anniversary of China-Kazakhstan relations in February 2012 and reiterating President Hu's commitment to these ideals.<sup>28</sup>

Of course, the longevity of the Chinese economic miracle which began in the late 1990's remains far from guaranteed.<sup>29</sup> The significance of future growth trends for its domestic economy and

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<sup>26</sup> Xinhua, "Chinese President expects continued improvement of Sino-Kazakhstan relations to achieve new progress," *Global Times*, June 11, 2011.

[<http://china.globaltimes.cn/diplomacy/2011-06/664154.html>]

<sup>27</sup> "China, Uzbekistan eye deeper energy cooperation," China Daily, Source: Xinhua September 23, 2011. [[http://www.chinadaily.com.cn/china/2011-09/23/content\\_13774873.htm](http://www.chinadaily.com.cn/china/2011-09/23/content_13774873.htm)]

<sup>28</sup> "Foreign Minister Yang Jiechi Receives Written Interview by Kazaag News Agency Beijing Branch on the 20th Anniversary of China-Kazakhstan Diplomatic Relations," February 20, 2012," Ministry of Foreign Affairs of the People's Republic of China website.

[<http://www.fmprc.gov.cn/eng/zxxx/t907826.htm>]

<sup>29</sup> For a discussion of some of the risk factors, see Barry Eichengreen, Donghyun Park and Kwanho Shin, "When Fast Growing Economies Slow Down: International Evidence and Implications for China," NBER Working Paper No. 16919, March 2011.

partners worldwide especially Central Asia have remained high given the sheer scale of the country's investments and trade. Among other recent accomplishments that have recently helped to reshape Eurasia, Russia emerged as the largest oil producer in the world in 2009. No potential peer seemed apparent with the potential exception of Saudi Arabia. Between 2000 and 2010, Russia and Kazakhstan grew production more than any other states. In addition to geographic proximity, China's trade and investment growth rates have inherently given the country a fundamental lead in Central Asia while broader market trends have followed suit.

### **Redefining policies of unilateral disrespect, inequality and unsanctioned intervention: The foundations of outside influence in Central Asia**

Central Asia's recent incremental trends toward developing links across Asia have not historically followed a direct or consistent path. In the years immediately preceding the dissolution of the Soviet Union and following the creation of independent nation-states in the region in 1991, new political and economic foundations were established.<sup>30</sup> These changes allowed for the initiation of dramatic shifts in government policy toward alternative models of governance, marking a new phase in Central Asian history.<sup>31</sup> The senior leadership of these five states redirected the future of their countries at a crucial juncture in their development. Amongst

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[[www.nber.org/papers/w16919.pdf](http://www.nber.org/papers/w16919.pdf)] Ruchir Sharma, *Breakout Nations: In Pursuit of the Next Economic Miracles*, New York: Norton, 2012, 15-34.

<sup>30</sup> For the early trends following independence, see in particular Bremmer and Taras, *New States, New Politics*, 1997. For an overview of the external relations during the early post-Soviet period see Peter Hopkirk, *The Great Game: Struggle for Empire in Central Asia*, New York: Farrar, Strauss, Giroux, 1994, xv-xvii.

<sup>31</sup> For an overview of the changes observed during the transition period, see Tom Everett-Heath, Editor, *Central Asia: Aspects of Transition*, Abingdon: Routledge, 2003. Gregory Gleason, *The Central Asian States: Discovering Independence*, Boulder, Colorado: Westview Press, 1997. Arne Haugen, *The Establishment of National Republics in Central Asia*, Basingstoke, Hampshire: Palgrave Macmillan, 2003.

other fundamental choices during this dynamic period, national leaders were forced to consider the level of control that central state authority should maintain over the management of the political, social, and economic systems of the region. The balance between state and private governance offers a beneficial construct for addressing these trends, despite a vast negative consensus found in Western assessments of the region's performance on these metrics.<sup>32</sup> These assessments also illuminate the relative tendency of Central Asian leaders to gravitate toward Russia and China. Each of these partner states had managed similar challenges and transitions since 1991. In turn, these mutual experiences contributed to a higher level of common understanding.

In part as a result of this personal and national sense of loyalty, Kazakhstan would stand as the last country that refrained from declaring its independence from the Soviet Union as of September 1991. In this and other examples from the transition period, Russia's ties to the region continued to have a dramatic effect on the political careers of the first national leaders in the new states of Central Asia. Throughout the early transition period, a distinguishing characteristic of the leadership was the continuity of the legacy Communist elite. Despite shifts in his support of Gorbachev and Yeltsin, Nazarbayev alluded to one justification of this continuity when he stated, "An important quality in every politician is predictability of his actions. I believe that M.S. Gorbachev has this quality. Therefore I am very much afraid of

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<sup>32</sup> Specific works surrounding this construct will be subsequently considered; for an overview, see Janos Kornai, *The Socialist System: The Political Economy of Communism*, Princeton: Princeton University Press, 1992.

drastic changes in the top echelon of power, which today could lead to loss of even the rather small democratic gains that perestroika has given us.”<sup>33</sup>

Similar to trends seen in Russia, China and the U.S., each of the states in Central Asia has drawn from competing historical traditions in their search for a new paradigm for governance following independence.<sup>34</sup> The Soviet period marked a higher level of central control and initially stood as the most recent precedent.<sup>35</sup> At the collapse of the Soviet Union in 1991, the standards of Communism, socialism and a centrally planned economy remained in close sight.<sup>36</sup> In the years that followed, the Soviet example shaped both internal developments and the external relations each country established with outside powers. As Russia faced its own transition and choices

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<sup>33</sup> Mikhail Alexandrov, *Uneasy Alliance: Relations between Russia and Kazakhstan in the Post-Soviet Era, 1992-1997*, Westport, Connecticut: Greenwood Press, 1999, 34-39.

<sup>34</sup> For an overview of historical traditions of Central Asia and their modern implications for the post-Soviet states, see Samuel Adrian Miles Adshead, *Central Asia in World History*, New York: St. Martin's Press, 1993. Paksoy, *Central Asia Reader*, 1994.

<sup>35</sup> For an assessment of the impact of these precedents following independence, see John Glenn, *The Soviet legacy in Central Asia*, New York: St. Martin's Press, 1999. Wallerstein has referred to this as the “Communist Interlude”. See Immanuel Wallerstein, *The End of the World as We Know It: Social Science for the Twenty-first Century*, Minneapolis: University of Minnesota Press, 1999, 7-18.

<sup>36</sup> As further discussed in Chapter 6, a discussion of the link between Soviet precedents and the subsequent economic policies of the newly independent states is found in Rawi Abdelal, *National Purpose in the World Economy: Post-Soviet States in Comparative Perspective*, Ithaca: Cornell University Press, 2005. Additional perspectives also available in Neil Robinson, Editor, *Reforging the Weakest Link: Global Political Economy and Post-Soviet Change in Russia, Ukraine and Belarus*, Aldershot: Ashgate: 2004. Graham Fuller, “The Emergence of Central Asia,” *Foreign Policy*, Number 78, Spring 1990, 49-67. For a discussion of interpretations of the distinction between Communism and socialism, see Archie Brown, *The Rise and Fall of Communism*, New York: Ecco, 2009, 101-105.

during this period, many of the Central Asian states continued the existing models of close ties with Moscow.<sup>37</sup>

While Western observers and scholars have often focused on the continuation of Soviet precedents, alternate trends have also arisen. These liberal tendencies were initially characterized by the rise of free trade and private property. Following independence from the Soviet Union, these tendencies developed to varying degrees amongst the five individual states. These included independent economic activities by corporations and individuals, privatization, and increased social and economic interconnectedness through globalization.<sup>38</sup>

Following independence, the balance between central state control and liberal structures of governance in Central Asia often aligned with elements of the region's prior independent experiences.<sup>39</sup> Some of these traditions may be traced back to the Silk Road era, a period frequently cited by regional leaders as an example of modern development in Central Asia as

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<sup>37</sup> Anthony Hyman, "Moving out of Moscow's orbit: the outlook for Central Asia," *International Affairs*, Volume 69, Number 2, April 1993, 289-304. Richard Pomfret, *Asian Economies in Transition*, Cheltenham: Edward Elgar, 1996, 98-99.

<sup>38</sup> Christopher I. Beckwith, *Empires of the Silk Road: A History of Central Eurasia from the Bronze Age to the Present*, Princeton: Princeton University Press, 2009. For the evolution during the Soviet period, see Leon Gouré, Foy D. Kihler, Richard Soll and Annette Stiedbold, *Convergence of Communism and Capitalism: the Soviet View*, Miami: Center for Advanced International Studies, University of Miami, 1973. Scholars of political economy have pointed to the fall of the Soviet Union as "the proudest accomplishment of capitalist triumph." See Ellen Meiksins Wood, *The Origins of Capitalism*, New York: Monthly Review Press, 1999, 1.

<sup>39</sup> A similar analysis of the early origins of governance structures in Russia may be found at Joseph T. Fuhrman, *The Origins of Capitalism in Russia: Industry and Progress in the Sixteenth and Seventeenth Centuries*. Chicago: Quadrangle Books, 1972, 6-11.

well as a model to aspire toward.<sup>40</sup> An early example of globalization, the Silk Road period was characterized by diverse trading relationships, both within Central Asia and across surrounding regions. Authors have pointed to this early precedent as an example of “thin” globalization – a limited number of traders with a primary set of customers consisting mainly of the elites.<sup>41</sup>

Hybrid corporate structures in Central Asia have often combined elements of both state-centric and market-centric behavior, similar to corporations in Russia and China.<sup>42</sup> As an example, many state-owned enterprises, including KazMunaiGas, have listings on international bourses such as the London Stock Exchange.<sup>43</sup> While definitions vary, state-owned enterprises are defined here to include businesses in which a government maintains a majority shareholding (greater than 50 percent).<sup>44</sup> Despite ties to the free market in the ownership structure of these companies, they remain under a high level of government oversight and regulation. These companies display characteristics that in some ways parallel the modus operandi of mixed

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<sup>40</sup> For a representative analysis of the early origins of modern governance trends as seen in Central Asia and more broadly around the world, see Parag Khanna, *How to Run the World: Charting a Course to the Next Renaissance*, New York: Random House, 2011.

<sup>41</sup> See David Held and Anthony McGrew, Editors, *The Global Transformations Reader: An Introduction to the Globalization Debate*, Cambridge: Polity Press, 2003, 77. Richard Foltz, *Religions of the Silk Road: Premodern Patterns of Globalization*, New York: Palgrave Macmillan, 2010. Robert O. Keohane and Joseph S. Nye, Jr., “Introduction,” in Joseph S. Nye and John D. Donahue, *Governance in a Globalizing World*, Washington: Brookings Institution Press, 2000, 7.

<sup>42</sup> Alex Dupuy and Barry Truchil, “Problems in the Theory of State Capitalism,” *Theory and Society*, Volume 8, Number 1, July 1979: 1-38.

<sup>43</sup> Brian C. Anderson, *Democratic Capitalism and Its Discontents*, Wilmington, Delaware: Intercollegiate Studies Institute, 2007. John Gray, *False Dawn: The Delusions of Global Capitalism*, New York: New Press, 2000. Pertti Alasuutari, “Review: Globalization and the Nation-State, An Appraisal of the Discussion,” *Acta Sociologica*, Volume 43, Number 3, 2000, 260. [259-269]

<sup>44</sup> Ravi Ramamurti and Raymond Vernon, Editors, *Privatization and Control of State-Owned Enterprises*, Washington: World Bank, 1991. *Corporate Governance of State-Owned Enterprises: A Survey of OECD Countries*, Paris: Organisation for Economic Co-operation and Development, 2005.

economies in mature social democracies. Some specialized studies of Central Asia have considered the link between these competing models and underlying philosophies, without systematically applying the framework to a strategic analysis of these societies.<sup>45</sup>

Across the population of post-Soviet Central Asian states, individuals have thus faced a range of alternatives that fall between the theoretical extremes of what may be characterized as “pure socialism” and “pure capitalism”. The resultant career and social decisions of citizens have similarly continued to pull them in alternative directions, both in keeping with proactive policy changes and implicitly through the variable market opportunities available in given countries.<sup>46</sup> Traditions of the Soviet period that persisted or were reinitiated in the years since independence include a high level of state authority over businesses, across both strategic and non-strategic industries.<sup>47</sup> Timothy Frye has characterized the struggle between respective “ex-communist and anticommunist factions” as reflective of “a war of attrition over economic and political resources.” He has argued that this struggle had “a devastating effect on economic growth” after the fall of the Soviet Union.<sup>48</sup> The research and writing that I have done on this topic has followed an alternative point of reference by often considering the methods by which states,

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<sup>45</sup> As an example, a consideration of the evolution of academic and scientific institutions in the region may be found in Sarah Amsler, *The Politics of Knowledge in Central Asia: Science between Marx and the Market*, Abingdon: Routledge, 2007.

<sup>46</sup> Carter Page, “A historical review of capitalism and socialism in Central Asia,” Working Paper 2-1, January 2010. For a related example from another developing market, see Dan Senor and Saul Singer, *Start-up Nation: The Story of Israel's Economic Miracle*, New York: Twelve, 2009. In this analysis, Senor and Singer consider the relationship between Israeli cultures and traditions and national development trends toward entrepreneurial approaches.

<sup>47</sup> James Rupert, “Dateline Tashkent: Post-Soviet Central Asia,” *Foreign Policy*, Number 87, Summer 1992, 175-195. Mick Moore, “Revenues, State Formation, and the Quality of Governance in Developing Countries,” *International Political Science Review*, Volume 25, Number 3, July 2004, 297-319. (JSTOR)

<sup>48</sup> Timothy Frye, “The Perils of Polarization: Economic Performance in the Postcommunist World,” *World Politics*, Volume 54, Number 3, April 2002, 309. (JSTOR)

private forces as well as associated institutional structures have led to constructive symbiosis rather than destructive conflict. Recent efforts by Western scholars and leaders to denigrate public leaders from the region have unnecessarily perpetuated Cold War tendencies by deepening suspicions from that era. Some of my related analysis has demonstrated a range of alternative perspectives and approaches that may help to illuminate future opportunities.

In addition to tendencies toward centralized state control and liberal economic systems with diversified parties, some actors within Central Asia tended to follow an alternative path following independence. As the state remained dominant and new markets were simultaneously established following the breakup of the Soviet Union, members of these societies devised other methods and means of survival through corruption. While a comprehensive analysis of this third economic model is problematic due to the paucity of available data, these approaches mirror several corrupt tendencies at times found in Western societies.<sup>49</sup> Some may be clear cut such as the Bernard Madoff scandal in financial markets and Enron in the energy sector, while others are more subtle such as the perceived societal injustices highlighted by the Occupy Wall Street movement.

### **The rise of Russia and other external forces**

Among the diverse pressures that defined the balance of state and private forms of governance within the region, influences originating outside of Central Asia eventually had a dramatic effect

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<sup>49</sup> James D. Smith, "Measuring the Informal Economy," *Annals of the American Academy of Political and Social Science*, Volume 493, September 1987, 83-99. (JSTOR)

following independence.<sup>50</sup> By most indications, the importance of these external influences is expected to remain high in the future, driven in part by the political and economic objectives of external states. In turn, the political, economic, and social pressure on the existing and emerging national leadership is expected to continue to shape the direction of new policies in the Central Asian states.<sup>51</sup> Pressure from adjacent countries has remained especially relevant due to their proximity and the high level of emphasis that states such as Russia and China have placed on relations with Central Asia. In particular, Russia has often worked to maintain and revitalize many aspects of the relationship that existed during the Soviet era.<sup>52</sup> After a rapid turn toward the capitalist model after the fall of the Soviet Union during the 1990s, Russia took some steps to again increase the role of the state in the second decade following independence.<sup>53</sup> The country's growing economic strength and increased leverage in commodity markets during the initial terms of Vladimir Putin's presidency helped to further empower this new momentum.<sup>54</sup>

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<sup>50</sup> For an overview of this impact, with a particular focus on the impact of Russia, see Paul Kubicek, "Regionalism, Nationalism and Realpolitik in Central Asia," *Europe-Asia Studies*, Volume 49, Number 4, June 1997, 637-655.

<sup>51</sup> A useful review of these forces and actors may be found at Boris Z. Rumer, Editor, *Central Asia: A Gathering Storm?* Armonk, NY: M.E. Sharpe, 2002.

<sup>52</sup> Graham Smith, "The Masks of Proteus: Russia, Geopolitical Shift and the New Eurasianism," *Transactions of the Institute of British Geographers*, Volume 24, Number 4, 1999, 481-494. (JSTOR)

<sup>53</sup> Displayed prominently in the literature surrounding the presidency of Vladimir Putin. Representative examples include Richard Sakwa, *Putin: Russia's Choice*, Abingdon: Routledge, 2008. Lilia Shevtsova, *Putin's Russia*, Washington, D.C.: Carnegie Endowment for International Peace, 2005. Peter Truscott, *Putin's Progress: A Biography of Russia's Enigmatic President*, New York: Simon & Schuster, 2004. Edward Lucas, *The New Cold War: Putin's Russia and the Threat to the West*, New York: Palgrave Macmillan, 2008. Pauline Jones Luong and Erika Weinthal, *Oil Is Not a Curse: Ownership Structure and Institutions in Soviet Successor States*, Cambridge: Cambridge University Press, 2010.

<sup>54</sup> The connection between Russia's power and energy development is a central thesis of Marshall I. Goldman, *Petrostate*, 2008. Steve LeVine, *The Oil and the Glory: The Pursuit of Empire and Fortune on the Caspian Sea*, New York: Random House, 2007. Anita Orban, *Power, Energy, and the New Russian Imperialism*, Westport, Connecticut: Praeger, 2008. Rudiger Ahrend, *Sustaining Growth in a Resource-based Economy: The Main Issues and the*

Along with the direct influence that Russia exerted in Central Asia, the remnants of past Soviet policies shaped the region's successor states during the years immediately after the fall of the Soviet Union.<sup>55</sup> State policy decisions made by the Communist party leadership during the Soviet era also often mirrored many of the new initiatives implemented by Russia after 1991.<sup>56</sup> While Central Asian states continued to establish their own political paths and new relationships over time, the remnants of historic linkages continued to represent a foundation on which these new states were established.<sup>57</sup> Despite broad suspicions in the West regarding the intentions and influence of Russia, my related research has demonstrated evolving similarities between Russia and Central Asia that have positively impacted these states. The parallels between privatization trends and structures in the energy sector of Russia and Kazakshtan represents an important example that contrasts with most other producer regions that hold similar resources.

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*Specific Case of Russia*, Occasional Paper Number 6, Geneva: United Nations Economic Commission for Europe, 2006. Pauline Jones Luong and Erika Weinthal, *Oil Is Not a Curse: Ownership Structure and Institutions in Soviet Successor States*, Cambridge: Cambridge University Press, 2010, 121-180.

<sup>55</sup> For an overview of the historic continuity between these periods, see Paul A. Goble, "Russia and Its Neighbors," *Foreign Policy*, Number 90, Spring 1993, 79-88.

<sup>56</sup> An overview of these consistencies is available at John M. Thompson, *Russia and the Soviet Union: An Historical Introduction from the Kievan State to the Present*, Boulder, Colorado: Westview Press, 2008.

<sup>57</sup> Despite these deep historic precedents, Russia has taken its own steps toward liberalization and thus has in part moved counter to the paradigm of central state control seen during the Soviet period. For a related analysis including discussion of the characteristics of Russia's interaction with neighbors, see Anders Aslund, *Building Capitalism: The Transformation of the Former Soviet Bloc*, Cambridge: Cambridge University Press, 2001. Andrei Shleifer and Daniel Treisman, *Without a Map: Political Tactics and Economic Reform in Russia*, Cambridge, Massachusetts: MIT Press, 2001. Anders Aslund, "Russia's Road from Communism," *Daedalus*, Volume 121, Number 2, Spring 1992, 77-95.

Some competitive tensions between the neighboring powers of Russia, China, and other external states including the U.S. have remained particularly relevant in the energy arena as a result of the high level of focus.<sup>58</sup> Viewed from both a contemporary and a historic perspective, the literature surrounding the Great Game has been frequently invoked as a precedent for this multi-tiered competition in modern Central Asia. This potential model refers to the history of conflict between the British Empire and the Russian Empire surrounding their efforts to achieve dominance in the region throughout much of the 19<sup>th</sup> century.<sup>59</sup>

In addition to influence from Russia and the U.S., Chinese government leaders and businesses have increasingly come to stand as alternative models for Central Asia. Beyond the contribution of capital investment, the approach of Chinese companies and smaller entrepreneurs consistently reflected the principles of mutual respect, equality and mutual benefit. Despite the high level of state control in China, Chinese merchants have added to this influence and have served as a fundamental example for capitalist trends in the region given their close proximity and the impact of these businesses within the society.<sup>60</sup> Incremental steps toward liberalization have

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<sup>58</sup> Lo, *Axis of Convenience*, 2008, 132-153. For a comparative review of the dynamics of competitive forces in the energy industry considered on a global level from a world-systems perspective, see Stephen G. Bunker and Paul S. Ciccantell, *Globalization and the Race for Resources*, Baltimore: Johns Hopkins University Press, 2005.

<sup>59</sup> In addition to the historic view offered by Hopkirk [Hopkirk, *The Great Game*, 1994], see for example Anoushiravan Ehteshami, Editor, *From the Gulf to Central Asia: Players in the New Great Game*, Exeter: University of Exeter Press, 1995. Mentioned by Duke of York in meeting with U.S. Ambassador to Kyrgyzstan Tatiana Gfoeller. "Candid discussion with Prince Andrew on the Kyrgyz economy and the "Great Game," Embassy Bishkek, October 29, 2008, as cited on Wikileaks. [<http://wikileaks.org/cable/2008/10/08BISHKEK1095.html#>]

<sup>60</sup> Carter Page, "A historical review of capitalism and socialism in Central Asia," Working Paper 2-1, January 2010. Leo Paul Dana, *When Economies Change Paths: Models of Transition in China, the Central Asian Republics, Myanmar & the Nations of Former Indochine Française*, Singapore: World Scientific Publishing, 2002. George Zhibin Gu and William Ratliff, *China and the New World Order: How Entrepreneurship, Globalization, and Borderless Business Are*

exposed alternative trends and future opportunities. Even if external relationships often center on government ties, the region's establishment of diverse partnerships, technology transfer and capital flows including stock exchange listings help encourage trends toward market-based approaches.

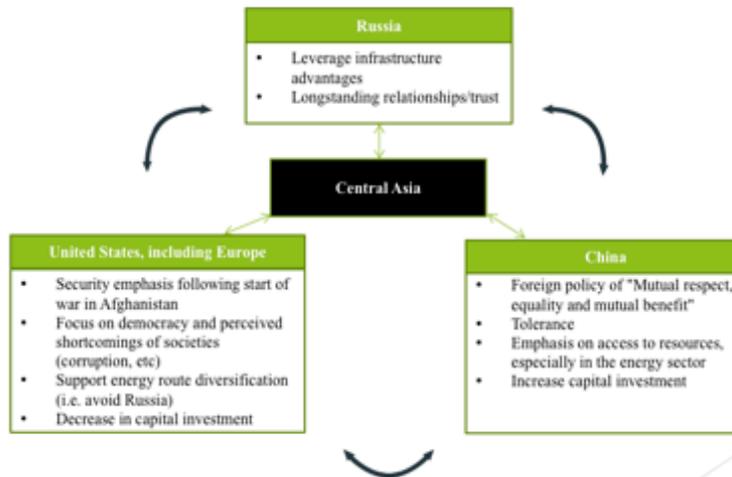
Contrary to popular perceptions, Central Asia's partnerships with outside powers including Russia and China have leveraged the relative strengths of each party and may represent viable solutions to a range of current dilemmas. Despite the overwhelming focus on past failures and shortcomings, several areas of accomplishment expose the potential for effective future development through cooperative approaches. In contrast to the excitement many analysts and scholars have shown for the potential drama associated with a new "Great Game", a range of successes from the initial decades point to alternative scenarios and opportunities. As advocated by China and Russia, policies and actions based on the principles of mutual respect, equality and mutual benefit have allowed for a diversity of participation that has benefited all parties.

Concurrent with these trends, efforts by each major power to shift their focus toward development of their own domestic resources has offered additional advantages for each group. Technological breakthroughs in the energy sector since 2007 have enabled these new prospects and approaches. For an overview of these opportunities, I have a few slides which demonstrate these alternative views.

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*Reshaping China and the World*, Palo Alto, California: Fultus, 2006. Bruce J. Dickson, *Red Capitalists in China: The Party, Private Entrepreneurs, and Prospects for Political Change*, Cambridge: Cambridge University Press, 2003. Alan Smart and Josephine Smart, *Petty Capitalists and Globalization: Flexibility, Entrepreneurship, and Economic Development*, Albany: State University of New York Press, 2005, 29-33.

## Historic approaches to relations with post-Soviet Central Asia



## Potential areas of future cooperation and emerging sources of leverage

<b>Russia → US</b> (Russia may provide to the U.S.)	Collaborative partnership in the energy industry and other diversified sectors	<b>US → Russia</b> (U.S. may provide to Russia)	Emerging technologies and potential capital market access (contingent upon US's refocus toward resolution of domestic challenges)
<b>China → US</b>	Demand for products and services; over \$1 trillion in sovereign debt	<b>US → China</b>	Technology
<b>China → Russia</b>	Capital and investments	<b>Russia → China</b>	Natural resources

As suggested by the increasingly popular Great Game concept, the principles of mutual respect, equality and mutual benefit have indeed encountered obstacles. As an example of problems seen in the parallel activities of private businesses and centrally-controlled state entities, officials have frequently been accused of corruption and arbitrary policies.<sup>61</sup> Such challenges have drawn attention and interest away from external state-owned enterprises and independent local businesses in Central Asia following independence. Western disapproval of these perceived shortcomings has often served as the foundation for state-centric policies of unilateral disrespect as seen in the activities of the U.S. Government over recent decades. In sharp contrast, a market-

<sup>61</sup> Nonna Barkhatova, "Russian Small Business, Authorities and the State," *Europe-Asia Studies*, Volume 52, Number 4, June 2000, 657-659. In summary, Barkhatova describes the challenges faced in the former Soviet Union as follows: "The whole system of state regulation is like an endless ladder where every step is an obstacle provoking the small entrepreneur to abandon the business." For a critical assessment of the interaction of state and private forces as it relates to the global energy industry see Robert Engler, *The Brotherhood of Oil: Energy Policy and the Public Interest*, Chicago: University of Chicago Press, 1977.

based approach involving diversified investors establishes a subtler and effective means of incentivizing improvements. Words may highlight perceived inequalities on a conceptual level. In contrast, the financial impact of investor decisions often creates a more meaningful response. These frequently become personal given the often direct involvement of Central Asian leaders in negotiations and decisions. However, the effective allocation of capital through market structures can represent a more meaningful and effective approach. It also avoids the unpredictable outcomes potentially associated with intervention including military action. Recent examples have been seen in both U.S. and Soviet sequential wars in neighboring Afghanistan.

As this lecture has tried to highlight, free market principles and entrepreneurial ventures often arose in the economies of the CIS states and beyond in a greater variety of forms than is frequently acknowledged. For instance, certain large state-run companies replicated comparable structures in adjacent countries, as seen in the similarities of corporate governance often observed between Kazakhstan and Russia. In addition to the impact of Russia and as a reference point for comparison, China grew as an important neighboring force that has increasingly affected the shape of economic relations in modern Central Asia through its commercial and investment activities in the region.<sup>62</sup>

Despite inevitable obstacles, competitive trends driven in part by the participation of major investors in the region have led to demonstrable improvements among local entities. In

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<sup>62</sup> The implications of the trading relationships seen between China and the Central Asian states are considered in detail in Carter Page, "The influence of China in Central Asia," Working Paper 3-1, January 2010.

conclusion, I would make three primary arguments. First, states and individuals in Central Asia balanced alternative traditions of liberal economics with central government control and narrow relationships following independence. While this balance has at times been acknowledged, the impact of market forces is significantly greater than perceptions of the prevalence of dictatorships have traditionally implied. Second, the balance between these alternative traditions was influenced by and correlated with characteristics observed in Central Asia's external partners.<sup>63</sup> Third, Russia has remained a primary external influence in the initial years of independence while the impact of China has grown more recently.<sup>64</sup> In spite of this massive growth in investment and trade, Beijing's overall impact and potential has remained constrained by a range of regional concerns. Contrary to the prevalent Great Game ideals advanced by many scholars and analysts, the relative impact of China and Russia has frequently offered positive and constructive benefits to both the region and other external states alike.

The perspectives of mutual respect, equality and mutual benefit both acknowledge the relative contributions of diverse parties while aligning closely with the respective competing economic models. Free market approaches have tended to incentivize positive relative performance by corporations through its inherent architecture of encouraging mutual benefits for shareholders and management. In both public institutions and private businesses alike, mutual respect stands as a vital prerequisite for effective commerce, especially when investors forge long-term

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<sup>63</sup> Discussion of this correlation has been made in describing post Soviet societies in Central Asia, however limited supporting empirical evidence and analysis has been offered. See for example, Michael McFaul, "Circumstances versus Policy Choices: Why has the Economic Performance of the Soviet Successor States Been So Poor?" in Michael McFaul and Kathryn Stoner-Weiss, Editors, *After the Collapse of Communism: Comparative Lessons of Transitions*, Cambridge: Cambridge University Press, 2004, 91.

<sup>64</sup> "FACTBOX-China's investments in Central Asian energy," Reuters, December 14, 2009. [<http://www.reuters.com/article/2009/12/14/china-pipeline-idUSLDE5BD04Y20091214>]

agreements and allocate significant capital. Second, recent technology advances have further incentivized multi-party partnerships and cooperation. U.S.-China joint ventures in the shale arena represent important examples. While a few Russian companies have made similar steps forward in North America, although recent sanctions policy has to a large extent limited these possibilities. As the U.S., China and Russia have increasingly realigned their focus toward a new focus on developing domestic resources, it has incrementally helped to in some ways start to ease the detrimental characteristics of Great Game rivalries.

In comparison to these alternative propositions, analyses of post-Soviet Central Asia have led to dire judgments built upon an incomplete understanding of the region.<sup>65</sup> Condescending Western perspectives that have been advanced regarding Central Asia stand in sharp contrast to the approaches taken by China and Russia as highlighted earlier in this chapter. As Harvie Wilkinson has noted in another field of study, legal scholars similarly have gone to great lengths in seeking to create cosmic theories that, “Purport to unlock the mysteries of [the U.S. Constitution] much as Freud proposed to lay bare all of human behavior and Einstein attempted to explain the universe.”<sup>66</sup> While analyses of Central Asia have tended to be somewhat more modest in their scope and objectives on an individual basis, they have collectively helped to

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<sup>65</sup> For a more comprehensive survey of the literature of Central Asia, a review of deficiencies in the existing literature, and proposed methods for improving theory-based research regarding the region, see Christoph H. Stefes and Amanda E. Wooden, “Tempting two fates: the theoretical foundations for understanding Central Asian Transitions,” in Amanda E. Wooden and Christoph H. Stefes, Editors, *The Politics of Transition in Central Asia and the Caucasus: Enduring Legacies and Emerging Challenges*, Abingdon: Routledge, 2009, 3-29. Further analysis is provided by additional authors throughout this volume. See for example, Oksan Bayulgen, “Caspian energy wealth: social impacts and implications for regional stability,” in Wooden and Stefes, Editors, *Politics of Transition*, 2009, 163-185.

<sup>66</sup> J. Harvie Wilkinson III, *Cosmic Constitutional Theory: Why Americans Are Losing Their Inalienable Right to Self-Governance*, Oxford: Oxford University Press, 2012, 3-4.

define the region in ways that lead to certain consistent policies and underlying philosophies within the Western world. Just as Wilkinson has noted the tendency of legal theories to foster activism in the American judiciary, a similar activism has long permeated the U.S. foreign policy establishment on the basis of perceived shortcomings in the former Soviet Union. As recent decades have shown, this tendency has shown limited variance across liberal and conservative U.S. Administrations alike.

Thanks again to the NES community for this invitation. I would look forward to engaging in a discussion and hearing your perspectives.

## Topics for discussion

- 1) How is capitalism defined today?
- 2) What is the proper balance between central state control and “liberal” structures of governance?
- 3) What are constructive methods of international cooperation today?
- 4) How can patterns of mutual respect, equality and mutual benefit impact international relationships?