

## THE WEAKNESS OF THE EUROPEAN UNION AND THE ILLUSION OF GREAT RUSSIA

February Comment 2021

The narrative has accustomed us to considering - not without addiction - the European Union as a vector of peace on the European Continent. In the 1950s the European Coal and Steel Community (ECSC), conceived by Jean Monnet, consolidated Franco-German pacification only five years after the end of the Second World War. In the 1980s, the relaunch of the idea of a large market, under the direction of Jacques Delors, solidly supported by François Mitterrand and Helmut Kohl, paved the way for a process that would lead to the birth of the euro. In addition, the 1985 Single European Act already contained a watermark of a common foreign policy, a prerequisite for the evolution towards a supranational Europe. In 2009, the Lisbon Treaty gave the European Union its current institutional set-up, de facto accentuating the tension between the supranational powers of the Commission (now chaired by Ursula von der Leyen) and the inter-governmental powers (where decisions are mainly taken by unanimous vote) of the European Council (chaired by former Belgian Prime

Minister Charles Michel), the European Union's High Representative for Foreign Affairs and Security Policy (Spaniard Josep Borrell) and the Council Presidency (rotating every six months, currently managed for France by Emanuel Macron). In 2012, the European Union was awarded the Nobel Peace Prize for its ability to progressively and democratically unite twenty-eight of the continent's states, while respecting human rights. Well, in just a few days, Putin's Russia invaded Ukraine and shocked the world, demonstrating on the ground all the limits of the European Union. An institution born to guarantee peace, because of its structural weakness, has turned out to be a threat to the stability of the entire continent and perhaps even the world.

Putin's Russia has long been preparing to become a power again: in 2018 it spent almost 4% of its GDP on arms, moving up the world ranking of the most active countries in this field, from 27th place in 2009 to sixth in 2018. The end of the Soviet Union was a humiliation for the

Russian people, who fell first into anarchy and then into the hands of a few oligarchs. The logic of the absolute winner of the Cold War, the United States, also had an overwhelming ideological dimension: with the fall of the Berlin Wall, Marxism-Leninism fell away, leaving room for a single thought based on democratic liberalism. Great politics was yielding to the power of the economy, which had to be left free to transform the world towards an ineluctably democratic destiny. China, which had its political structure intact, was able to take full advantage of its participation in the great world market. Russia did not. The empire founded by Lenin was dismembered. The European Union took in many countries from the Soviet zone of influence, weakening its political project of supranational integration, while remaining an important economic centre. NATO expanded sharply, pressing Russia over the years: the United States wanted absolute control of it to be free to focus its attention on the powerful Asian growth pole. Putin managed to restore pride to his country by restoring order. A KGB man from the old Soviet guard, he gave impetus to a new economic project through the exploitation of raw materials (first and foremost gas

and oil). The oligarchs, those loyal to his design, were and are the instrument of a driven renaissance. Technological *know-how*, for example, is not an expression of civil society, but a consequence of scientific research in the military sphere. These are the elements of the strength and weakness of the empire rebuilt by Putin.

The new tsar knows that he has sustained an economic structure different from that of the advanced democracies, as well as from that of China. The main threat comes from an excessive focus on the exploitation of raw materials. It is clear that the new planetary decarbonisation projects will, over time, reduce the need for gas and oil, endangering the foundations of the Russian economy. Especially as Europe accelerates towards a new digitised and green economy. But it is easy to imagine that Putin has sensed that the transition will be more difficult than the one studied in Brussels. The Continent's main economy, the German one, is preparing to separate itself from nuclear and coal without having any other immediate alternative but Russian gas. The European Union's dependence on Russian energy sources is important and

will be even more so in view of the opening of *Nord Stream2*, a gas flow from the Baltic Sea directly into Germany. In this context, Russia is a strong country, but weak in its ability to transform its economy into a competitive one. Over time this means decadence and dependence. According to Putin, Russia must use its strengths to control the transformation to the new economy of others, since it knows it cannot do this with its own. Preparing a strong military defence and making Europe dependent on Russian energy sources are the tools of a political construction probably thought out many years ago, waiting for an operational opportunity.

The timing of the invasion of Ukraine was carefully chosen by Putin and is the first step in this design, which can be summed up in a few obvious observations. For some time now, the United States has decided to reduce its presence in Europe, preferring to concentrate its military interests in Asia to contain Chinese expansion. While, under Obama, Russia was already considered by the United States only as a medium-sized regional power. Added to this fact is the decay of the European Union. The image of the meeting between the President of the

Commission, Ursula von der Leyen, and the President of the European Council, Charles Michel, with Recep Tayyip Erdoğan, in which the latter, acting with an instinct of institutional superiority, was almost pleased that the Turkish President was only offering the woman at the head of the European executive a back seat, speaks volumes about the confusion that reigns in the European Union. Moreover, the Western world, after two years of pandemic, and at least twenty years of fighting the danger of deflation (stimulated by uncontrolled economic liberalism), seems to be entering a dynamic that favours those who produce raw materials: that of inflation.

The Federal Reserve and the European Central Bank, in particular, have flooded the world economic system with liquidity since 2020 precisely to prevent the pandemic from turning into an economic recession. But now, demand that wants to make up for past shortfalls in spending, bottlenecks in production and rising energy prices are pushing central banks, starting with the US central bank, to raise rates and end the extraordinary injection of liquidity into the system because of soaring inflation. Given the general level of

debt, central banks know they can only raise rates if growth remains strong. And Putin is probably convinced that if he decreases oil and gas production, he can make the cost of energy explode and bend the economies of countries like Germany and Italy. The Kremlin chief hopes that a distracted America, a weak Europe and fear of exploding prices will push the internally embattled NATO to give in. He also expects that many EU countries will soon rush to him for favourable contracts, thus allowing him to consolidate control over Ukraine. His alleged reasoning has the combative logic of the great chess player. But there are other elements straddling logic and emotion that could play against him.

Tsar Putin's designs, after only five days of war, may have to reckon with a different reality, although it is too early to draw conclusions. The European Union and the United States have realised that the attack on Ukraine may indeed be the expression of a more ambitious project. And the consequences are global and not just regional. If Russia wins this game, China can easily draw the conclusion that Washington is weak. The goal of retaking Taiwan could come closer in time. So the

Americans are forced to show all their strength.

The weakness of the European Union, which is probably the trigger for the attack, is largely due to the US concentrating its activism in Asia. The successes of the European integration process have historically been linked to support from across the Atlantic. Well, now the US is also obliged to support the revival of the Old Continent. Moreover, Germany, which throughout the post-war period wallowed in a pacifism that was also determined by the aftermath of post-World War II guilt, has now agreed to allocate 100 billion eur to strengthen its armed forces and is committed to keeping its defence investment above the 2% per year of its GDP that it had promised and never delivered in NATO. The EU announces 450 million in armaments to be sent to Ukraine. Admittedly, this is not a large sum, but it is an important step towards a common defence concept. And no one knows how much Putin had taken into account the risk of really being excluded from the Swift payment system, which also affects the interests of the oligarchs.

The forces are in the field, both military (Russia-Ukraine) and in retaliation (US-

EU). Now we will have to see who will be able to resist the difficulties better. Will NATO and the EU be able to remain strong and cohesive? Will Putin be able to keep public opinion and his oligarchs at bay? Before arriving at real negotiations, it may be necessary to test what the real pain threshold is. And unfortunately the highest price is being paid by the Ukrainian people. But the way must be left open for the necessary compromises. Pushing Ukraine into the illusion that it will soon join the European Union is dangerous for at least two reasons: it trivialises the process of European integration (it takes a strong economic and cultural background to take this step, which cannot be improvised) and it provokes Russia, with which we need to prepare the ground for negotiations.

The stock markets are evidently discounting this reality. Safe haven stocks with good balance sheets and dividends, energy, commodities, gold, the US dollar and the Swiss franc are established paths to danger. Banking stocks, on the other hand, are to be avoided: ousting Russia from Swift also has negative consequences for Western credit institutions. Defence-related companies can obviously only gain. But the issue can

also be addressed with technology companies specialising in cybersecurity. Inflation will be more long-lasting and persistent than might have been expected before this crash: retrenchment increases producer prices, which will remain high even after the COVID bottlenecks have widened. But central banks will raise rates more slowly than could have been expected only a few weeks ago. For them, the first priority is growth, which the new demand for security could stimulate. China is coming out of this crisis a winner: equities (especially those geared to the domestic market), bonds and the currency are attractive, consolidating the political objective of stability. Beijing will buy gas and oil from the Russians at a discount, making them dependent on their demand. New economy bonds, the FAANG, could become attractive again thanks to more moderate rate hikes. But clean energy stocks, which have been suffering since November last year, will also inevitably return to winning ways. But it is best to understand the pain threshold before returning to investing. The European Union must give a strong signal, hoping that Jean Monnet was right: "Europe will be built in the crisis!".

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