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THE SECOND COLD WAR

*translated from the original entry in Russian by:
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An extract from the 2032 edition of the *Encyclopaedia of World History*¹:

THE SECOND COLD WAR (2006-2018): a geo-political confrontation between **RUSSIA** and the **USA** on a global scale. It is seen by some authorities as indistinct from **THE FIRST COLD WAR (1947-1989)**. However, as most authorities agree that the First Cold War ended with the fall of **THE BERLIN WALL** in 1989, we are inclined towards the convention of regarding the First and Second Cold Wars as two distinct events.

With the fall of the Berlin Wall in 1989, the triumph of **THE WEST** was widely proclaimed. It was held that **CAPITALISM** had triumphed over **COMMUNISM** and heralded a new world order in which the **FREE MARKET** and **DEMOCRACY** would reign supreme. Over the course of the 1990s and the opening years of the new century, Russia experimented with forms of liberal democracy and the free market. Neither of these experiments was completely successful. Deep in the Russian psyche is a desire for a strong personality to exercise control over the Russian state, along with a desire for a central agency to look after the well being of the Russian people. Even during the most liberal phases of the Russian experiment with democracy and free markets, political power was concentrated in the hands of **PRESIDENT YELTSIN** and economic power was concentrated in the hands of **THE OLIGARCHS**. The assumption of power by **PRESIDENT PUTIN** with the subsequent concentration of political power into his own hands, along with the wresting of economic power away from the oligarchs and into state hands merely returned the arrangements in Russia to their pre-1989 state of affairs.

Following the fall of the Berlin Wall, the **SOVIET UNION** fragmented into a number of separate states, the most significant of which being Russia. It is often held that the Soviet Union was an imperial manifestation of Russia, but without an Imperial dynasty. In the 1990s and the first years of the new century, there was an almost inevitable realignment of the **SATELLITE STATES** that comprised the former Soviet Republics. Generally speaking, the satellite states based in Europe tended to foster closer relations with the **EUROPEAN UNION**, with a number of the **BALTIC STATES** and **CENTRAL EUROPEAN STATES** joining the EU in the **GREAT ENLARGEMENT** of 2004. Equally, the former Soviet Republics in Central Asia (**KAZAKHSTAN**, **UZBEKISTAN**, **KYRGYZSTAN**, **TAJIKISTAN**, and **TURKMENISTAN** - the **FIVE 'STANS'**) fostered closer relations with both the USA and **CHINA**. This realignment was

¹ As is customary for scenarios, the events herein are fictitious.

not to the liking of Russia, and went a long way to determining Russian foreign policy in the early part of the twenty-first century.

It was the economic weakness of the Soviet economy rather than military defeat that led to the collapse of the Soviet Union. The economic reforms of the immediate post-Soviet era failed to stimulate the Russian economy sufficiently to give rise to growing prosperity in Russia. However, the advent of **PEAK OIL** gave a large stimulus to the Natural Resources Sector in the Russian economy. By 2006, Russia had the largest reserves of Natural Gas in the world and – according to some measures – was the largest oil exporter in the world. The influx of **PETRODOLLARS** gave a large stimulus to the Russian economy and formed the basis of a sharp increase in Russian per capita GDP. Whilst some of this newfound wealth was spent on improving the Russian infrastructure – see the rebuilding of **MOSCOW** – much of it was used to project and advance Russian foreign policy.

In the meantime, the USA, the main Russian adversary of the First Cold War, had not fared so well. Immediately after the fall of the Berlin Wall, the USA enjoyed a period of prolonged prosperity. Initially, this period of prosperity was due to the development of the '**NEW TECHNOLOGIES**' in the 1990s. However, by the early years of the new century, the impetus caused by the new technologies had waned somewhat, and further prosperity became reliant upon cheap money and cheap energy. The development of the Asian economies – particularly those of **JAPAN**, China and **SOUTH KOREA** – led to large inflows of investment capital into the USA, which helped to keep interest rates relatively low. This was further enhanced as many of the oil surpluses were further recycled into the US economy.

The reliance of the US economy on cheap energy was not made too evident until energy costs started to rise in the first decade of the new century. As the world moved towards peak oil, so the price of oil and natural gas rose. It was at this point that policy makers in Washington realised the extent to which they were dependent upon Middle Eastern oil. It was to secure the Middle Eastern oil supplies that the US became involved in the **SECOND GULF WAR**. This was a war that pinned down the US both militarily and in terms of diplomacy for first decade of the new century. Disengagement was attempted in 2008, but the resulting chaos in the oil markets led to a reversal of that policy.

The first act of the Second Cold War is seen by most authorities as the disruption of the gas supplies to Ukraine by Russia early in 2006. This followed a period of tension between the EU and the US on one side and Russia on the other side over whose satellite Ukraine should be. At the time, Ukraine was a classic '**BOUNDARY STATE.**' Eventually, Ukraine would become a firm supporter of Russia, but, at the time, it was also seen as a potential member of the EU. This gave the world a taste of what was to come.

The position of President Putin needed constitutional clarification in Russia. He was scheduled to stand down as President in 2008, but a new clause was added to the constitution in 2007 that allowed the President to stand for an unlimited number of terms and that extended the term of office from four to ten years. This gave the presidency of Mr Putin the longevity that it needed.

The key Russian foreign policy objective in 2008 was the restoration of Russia as a global power, and for it to regain the status that it had lost after the First Cold War. Russian foreign policy saw the US as the primary adversary, and devoted much time and energy to countering US influence. This was directed along two lines. By first detaching the other world players – primarily Japan, the EU, and China – from the US sphere of influence and then by exploiting the strategic weaknesses of the US economy.

Relations between the US on the one hand and the EU nations and Japan on the other had been somewhat strained in the early years of the twenty-first century. With the removal of the Soviet military threat to Europe after the First Cold War, Europe preoccupied with the issue of further integration. Whilst many European nations were predisposed towards the US view of the world, this did not constitute a blank cheque in diplomatic terms, and European support for the US always extracted a high price. Japanese preoccupations at this time were over the rise of China, the security of energy supplies, and the assertion of Japanese sovereignty in East Asia.

Russia was able to exploit these differences. Europe was suffering from an energy deficit, which had partly been resolved by a growing dependence upon Russian energy supplies – particularly of natural gas. Russia was able to enhance this dependence through a series of long term contracts for energy supply at relatively soft prices right out to 2015. Part of the Russian oil surpluses were used in the acquisition of key European companies – especially oil and gas distribution companies. By 2010, Russian companies owned, or had significant minority interests, in 68% of the oil and gas distribution market in the EU.

Equally, with very little indigenous natural resources, the security of energy supplies was a key issue for the Japanese government. The Russian government was able to exploit this, again, through the use of soft energy contracts. Japan was also given status as ‘preferred customer’ for Russian energy supplies, although this should be seen more in the context of Russian policy towards China rather than in terms of Russian policy towards Japan. However, it was Russia who orchestrated the Japanese permanent seat on the UN Security Council in 2011, and it was Russia who vetoed at the UN the resolution condemning Japan testing its first nuclear weapon in 2009. In the period 2006-2011, both Russia and Japan became much closer, at the expense of the US.

A third strand to Russian foreign policy was its treatment of the Five ‘Stans’ in Central Asia. The Five ‘Stans’ were former Soviet Republics, which Russia saw as a key part of their sphere of influence. However, the ‘Five Stans’ also border China, **IRAN**, and **AFGHANISTAN**. This geographical configuration was sufficient to cause both China and the US to take an active interest in the fate of the Five ‘Stans.’ The relative abundance of oil and natural gas reserves in the ‘Five Stans’ served to sow the seeds of further discord, especially as after severe winter of 2009, both China and the US were showing signs of energy shortfalls.

World affairs worsened greatly after 2012. It was at this time that the Russian government felt that it could flex some of the global power that it had accrued in the first decade of the new century. It was almost a given certainty that the flashpoint for confrontation would be the Middle East. It transpired that Russia had provided covert support to Iran in the development of a nuclear programme and that Iran had diffused some of that technology to Hezbollah in Lebanon. The detonation of nuclear armed WMDs in Israel by a team of Hezbollah suicide bombers acted as a catalyst to warm up the cold war.

Israel retaliated through a small nuclear detonation in south Beirut. Russia drafted a resolution at the UN condemning the use of WMDs by a UN member state, which was vetoed by the US. Russia retaliated by halting all oil exports worldwide. The chaos in the oil market was an event that will be remembered for many generations. An accommodation was reached after eight months fraught negotiations, but the result was that order would be restored to the oil markets, but that the price of Russian compliance would be the abandonment of Israel by the US. The **PALESTINIAN STATE** was established, financed, and armed, by Russia. The Palestinian State exacted revenge against Israel within days of its formation, reducing it to the state in which it is today.

By 2013, US foreign policy in the Middle East was in tatters. It was then that the US fully withdrew from **IRAQ**. The ruling classes in the various Middle Eastern kingdoms and principalities started to look very vulnerable to popular discontent. In order to disarm this discontent, a number of Middle Eastern states adopted a stance that was much more critical of 'the West,' and endeavoured to strengthen their ties with Russia.

Events over 2012-13 had the effect of weakening the US Dollar as an international currency. What had started as a softening of the currency soon developed into a full scale panic. It was the Asian nations who first added impetus to the crisis. The central banks of Japan, China, and South Korea, all of whom were by now dependent upon Russian energy supplies, had been quietly disposing of their long dated US T-Bonds. It was the sale order from the Bank of Japan of short dated US T-Bonds on October 17th 2013, along with the purchase of ECB Euro Bonds by Berkshire Hathaway on the following day, which led to the rout of the US Dollar. In 48 hours, the US Dollar had depreciated by 20%. To many commentators, this marked the end of the '**AMERICAN CENTURY.**'

The final weakening of the US currency came a few weeks later when the Russian government announced that all oil contracts from 1st April 2014 would be denominated in Euros. This was quickly taken up by a number of Middle Eastern states, and, by the end of 2014, all **OPEC** contracts were denominated in Euros. The effect on the US monetary system of such a shock was to add almost a war premium to US interest rates. Rising from 5% in September 2012 to 9% in December 2014, the effect on the US economy was an acute downturn in economic activity.

The rest of the world was relatively immune from this downturn in activity in the US. During the period 2006-14, globalisation had continued apace. The rising nations of this period, the '**BRIC**' economies², had developed sufficiently to lessen the dependence of the global economy upon the US consumer as an engine of growth. Whilst there was some downturn in global activity, the 'Great Recession of 2014-22,' as it is known in the US, was not at all severe in other areas of the world.

However, it did have a big impact in the US, and was sufficiently acute to dominate the US Presidential elections of 2016. By this time, the 'Red State; Blue State' division of the 2004 election had been replaced by a 'White State; Brown State' division. In geographical terms, the US was roughly divided by a line running from the south east corner in Florida to the northwest corner in Washington State. South of the line was 'Brown,' and north of the line was 'White.' The Great Recession made these divisions all that more acute.

The election of **PRESIDENT CABOT** in 2016 rather exacerbated matters. President Cabot appeared to be an austere man who did not catch the tempo of the nation. His policies were interpreted in the Brown States as designed to channel funds away from their interests into the interests of the already wealthy White States. A redistribution from the poor to the rich in a time of national hardship. It led to a campaign in the Brown States to withhold the remittance of Federal Taxes to the Federal Agencies. This campaign was very widely adopted in the Brown States and so successful that it brought the Federal Government to the edge of bankruptcy. It also emboldened the State of Texas to seek to leave the Union in 2018.

The potential secession of the State of Texas is seen by many authorities as the event that marks the end of the Second Cold War. At that point, the US economy was severely damaged, US prestige across the world was at the lowest in the history of the US, and the nation was bickering and fighting amongst itself. After 2018, Russia lost interest in challenging the US; there was nothing more to challenge. Instead, the focus

² Brazil, Russia, India, and China

of Russian diplomacy turned to the containment of China and India, who had quietly been gaining strength during this period.

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POINTS FOR THE CLASSROOM (send comments to forum@futuretakes.org):

- *The scenario presented in this excerpt illustrates a plausible next “act” or “scene” in a drama that pervades human history – that superpowers come and go. How will this era of rapid change impact the pace of this drama? Furthermore, which nation-states – or other entities – will be the superpowers in 2032, and why? Or will the notion of superpower itself be outmoded at that time?*
- *In addition to the factors identified in this excerpt, what other factors will drive geostrategic alignments – including actors other than nation-states – in 2025?*
- *In 2025, how relevant will oil be as an energy source, and with what geostrategic consequences?*
- *In this excerpt from the Encyclopaedia of World History, 2032 edition, Russian companies owned, or had significant minority interests, in 68% of the oil and gas distribution market in the EU by 2010. In 2025, will international (or foreign) ownership of corporations mitigate tensions that can lead to war? Alternatively, will such corporations, as new geostrategic actors, themselves be a source of new tensions that can lead to war? Why or why not?*
- *In this excerpt from 2032, it is the exercise of the diplomatic and economic instruments of national power (in conjunction with developments elsewhere) that makes Russia the dominant geostrategic actor. Between now and 2032, will these instruments of national power largely supplant the military instrument? Why or why not?*
- *In addition to the factors identified in this excerpt from 2032 – for example, the impact (or lack thereof) of new technologies, and the reliance of various nations on cheap money and cheap energy – what other factors will influence the rise and decline of nations between now and then?*
- *One might normally expect a decline of the US dollar, such as the decline beginning in 2014 (in this scenario), to help the US export market. Would this reverse the transition of the US from an industrial economy to a service economy – considering also that in this same time frame, the role of the US economy as a global economy growth engine had reduced? (See related “Point for the Classroom” in David Pearce Snyder’s article, this issue.)*