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## Doing Business with Putin's Russia: Why it's Dangerous to Trade with People who don't Believe in Trade

Author: [Ed Dolan](/blog/author/edolan/) · May 19th, 2014 · [Comments \(16\)](http://www.economonitor.com/dolanecon/2014/05/19/doing-business-with-putins-russia-why-its-dangerous-to-trade-with-people-who-dont-believe-in-trade/#dc-container)

I spent the 1990s teaching economics at a business school in Moscow. Our students were graduates of FizTech, Mekh-Mat, MIFI—the whole alphabet soup of science and technology schools that had fed the Soviet military-industrial establishment. These young men and women had degrees in things like “laser weapons platform design” that weren’t in much demand in Boris Yeltsin’s new Russia. Now they wanted to become financial analysts, accountants, and business IT specialists.

The students were incredibly bright and had great quantitative skills, but there were ideas in our American-style MBA curriculum that many of them found hard to grasp. Not my subject, economics. None of them had ever had an econ course before, but they ate up equations and models like breakfast cereal. Instead, the hardest thing for some of them to grasp was the idea that business could be something other than a zero-sum game.

### The zero-sum mentality

Our Russian students had been brought up in a system where the central question, at least in dealing with strangers, was the quintessentially Russian “кто-коро?” Who is going to get the best of whom? The question reflects a belief that every human interaction with outsiders necessarily has a winner and a loser. The idea that arms-length business dealings with people to whom you owe no prior duty of loyalty could have mutual benefits was new. Some students caught on, some did not.

Attempts at trade in which one party has a кто-коро mentality and the other is looking for mutual gains are fraught with risk. For the party with the zero-sum mindset, the risk is that of missing out on genuine opportunities for mutual gain. For the party looking for mutual gain, the risk is that the benefits promised in return may not materialize, for one of three reasons:

*Fraud.* You hand over your money for a bottle of Armenian brandy, but when you get home and open it, you find it is cheap vodka colored with tea.

*Non-fulfillment.* You deliver a manuscript to a publisher in return for promised royalties; the book is published and appears in every bookstore, but the royalties are never paid. Go to court? You’re joking, of course.

*Hold-up* ([http://en.wikipedia.org/wiki/Hold-up\\_problem](http://en.wikipedia.org/wiki/Hold-up_problem)). You enter into a contract that involves an investment in sunk costs on your part. After you have made the investment, your contract partner demands a renegotiation of terms, knowing that your commitment of sunk costs has weakened your bargaining position. (For example, you lease an office, and after you have redecorated it and advertised the address, the landlord demands an increase in the rent.)

When these risks are present, the only trades into which you, as an individual, can safely enter are ones that involve the simultaneous exchange of cash for goods or services whose quality you can verify on the spot. If you look at trade from a national rather than an individual perspective, the risks are even greater.

### Traders vs. Guardians

Just who are the people with whom it is dangerous to trade? Certainly, I do not mean to put all Russians in that category, any more than I would say all Americans are reliable trading partners. Instead, I would point to a distinction that Jane Jacobs makes, in her book *Systems of Survival* ([http://en.wikipedia.org/wiki/Systems\\_of\\_Survival](http://en.wikipedia.org/wiki/Systems_of_Survival)), between two mindsets or “ethical syndromes” that she calls the *guardian* mentality and the *commercial* mentality.

The guardians, who get their name from Plato’s ideal rulers, include government leaders, soldiers, and police, although their way of thinking also extends to criminal gangs, hunter-gatherers, and some other groups. Of the fifteen virtues Jacobs lists as characteristic for guardians, five are especially relevant for our discussion: First, guardians value and receive respect for exerting prowess. Second, they consider it important to take vengeance, in some cases even when doing so is costly to them. Third, they admire skill in deceit as a means of achieving an end. Fourth, they treasure honor. Fifth, although they are willing to trade when necessary, they do not view trade as an especially virtuous activity. They are suspicious of trade, in part, because it easily leads to corruption, treachery, or other conflicts between group and personal interests.

Commercial types, or traders, have a different set of virtues. They value efficiency, novelty, industriousness, and thrift. They seek voluntary agreements as the preferred means of attaining an end. Accordingly, they place a high value on respect for contracts and on honesty. They are not completely unwilling to use force, but they tend to shun it as regrettable necessity and to use it only as a last resort.

Honor is a particularly tricky concept. As Jacobs uses the term, it appears to mean the respect and esteem earned by admirably fulfilling one’s moral obligations. The puzzle is why she lists it as a guardian virtue but not a commercial one. Yes, clearly, a guardian can earn respect and esteem by exhibiting courage, loyalty, prowess on the battlefield, and so on, but can’t a trader equally earn respect and esteem by building a successful enterprise through thrift and innovation, by keeping promises, and paying debts?

I think the key to the puzzle is that honor is elevated to a distinct, separate virtue among guardians because that moral system creates a more frequent tensions between moral obligation and self-interest. It is not in your immediate self-interest to be the brave soldier who rallies retreating comrades and leads them back for one last, long-shot attack, but it is honorable to do so. Also, guardian societies are hierarchical, so unless you stand at the very top, honorable conduct requires loyalty and obedience even when they go against your immediate self-interest.

In contrast, a society of traders operates under the principle of Adam Smith's invisible hand or what Friedrich Hayek called spontaneous order. In such a society, the pursuit of self-interest by each member is supposed to be consistent with the interests of the community as a whole, provided everyone plays by the rules of the game, defined as respect for property rights and fulfillment of contracts. In such a society, you can earn the esteem of others through the pursuit of self-interest. In that sense, it is a virtue for traders to behave honorably, but honor is not a distinct, separate virtue.

Given their different value systems, guardians and traders approach negotiations with outsiders differently. Guardians take a wary approach, maintaining an expectation that any encounter is likely to produce a clear winner and a clear loser. Furthermore, they see any commercial agreement that is reached as an ongoing contest in which deceit is a legitimate weapon, not only in negotiating the agreement but also in carrying it out.

Traders, in contrast, approach negotiations more openly in the expectation of finding an agreement that will benefit both parties. Once they reach such an agreement, their default expectation is that it will be in the interest of both parties to honor it, and even if changing circumstances defeat that expectation, they expect the losing side to perform as promised.

Without a belief that voluntary agreements will lead to mutual benefits and that promise keeping is a virtue, the prospects for successful trading seem dim. It is not going too far to say that one who holds the opposite beliefs—the conviction that one side in any business relationship is bound to lose, combined with the view that deceit is a virtue and honesty is for chumps—does not believe in trade at all.

How do Jacobs' categories apply to Russia? Quite possibly the guardian mindset is more prevalent there than among Americans, but the sociological distribution of value systems is beside the point. What is important is that the Russian government under Vladimir Putin is, in many respects, the very embodiment of Jacobs' guardian mentality.

Putin and many of his closest associates came up through the KGB, an organization in which prowess, deceit, vengeance and honor are paramount virtues. Sometimes they are on display cartoonishly, as in pictures of [Putin bare chested](http://www.theblaze.com/stories/2012/02/27/creepy-putin-campaign-ad-predicts-future-for-virgin-voters-vlad-will-be-your-first-love/) (<http://www.theblaze.com/stories/2012/02/27/creepy-putin-campaign-ad-predicts-future-for-virgin-voters-vlad-will-be-your-first-love/>) astride a horse or intently [aiming a crossbow](http://content.time.com/time/quotes/0,26174,2013677,00.html) (<http://content.time.com/time/quotes/0,26174,2013677,00.html>) at a whale. A more chilling example from recent events is Putin's [after-the-fact acknowledgment](http://www.huffingtonpost.com/2014/04/17/putin-ukraine_n_5165913.html) ([http://www.huffingtonpost.com/2014/04/17/putin-ukraine\\_n\\_5165913.html](http://www.huffingtonpost.com/2014/04/17/putin-ukraine_n_5165913.html))—not just open, but openly boastful—of the deceptive use of unmarked Russian troops ("little green men") in the takeover of Crimea.

#### Was Bastiat right to think that if goods cross frontiers, soldiers will not?

Applying Jacobs' framework to international relations suggests that we take a cautious view of the old notion that trade is an instrument of peace. Frederic Bastiat supposedly said that if goods don't cross frontiers, soldiers will. Although the quote appears to be spurious, the idea is consistent with his thought and that of many libertarians and classical liberals today. In a recent essay in [The Freeman](http://www.fee.org/the_freeman/detail/want-peace-promote-free-trade) ([http://www.fee.org/the\\_freeman/detail/want-peace-promote-free-trade](http://www.fee.org/the_freeman/detail/want-peace-promote-free-trade)), Julian Adorney elaborates on the theory. Free trade creates international good will, he says. It humanizes the people that you trade with and gives nations a material incentive to avoid war. He quotes empirical research by [Patrick McDonald](http://icr.sagepub.com/content/48/4/547.abstract) (<http://icr.sagepub.com/content/48/4/547.abstract>) to the effect that lower barriers to trade reduce the probability to conflict between nations.

The belief in trade as an instrument of peace is institutionalized in the World Trade Organization. A WTO document lists promotion of peace as the first among [ten benefits](http://www.wto.org/english/thewto_e/whatis_e/tif0b01_e.htm) ([http://www.wto.org/english/thewto\\_e/whatis\\_e/tif0b01\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif0b01_e.htm)):

Crudely put, sales people are usually reluctant to fight their customers. In other words, if trade flows smoothly and both sides enjoy a healthy commercial relationship, political conflict is less likely. . . . What's more, smoothly-flowing trade also helps people all over the world become better off. People who are more prosperous and contented are also less likely to fight.

However, I think the notion that trade is necessarily conducive to peace requires an important qualification. It is valid, I think, only when the trade is between representatives of the commercial mindset on both sides. Things stand differently in the case of pseudo-commercial negotiations between traders on one side and guardians on the other, or between guardian types on both sides. As the recent Ukrainian conflict has brought home, trade agreements negotiated under those conditions are all too likely to exacerbate rather than to quell conflict. Consider three examples:

*Ukrainian-Russian gas trade.* For years, the gas trade between Ukraine and Russia has had guardian types at both ends. The two sides have repeatedly violated agreements and renegotiated them under duress. In these classic - dealings, the winners have been Putin's Russia, which has gained powerful geopolitical leverage over its neighbor, and corrupt intermediaries on both sides. The losers have been ordinary Ukrainians who have awakened to see that their country has been sold down the river for the fool's gold of (temporarily) cheap Russian gas.

Unfortunately, once Russia's partner, former Ukrainian president Viktor Yanukovich, left the stage, Ukraine's almost total dependency on Russian gas left it vulnerable to a classic hold-up. Gazprom, majority owned by the Russian state, announced a price increase. It justified the increase in part on the grounds that Russia was no longer bound to a previously agreed discount in lieu of rent for its Sevastopol naval base, which Russia had just swiped along with the rest of Crimea. On top of that, Gazprom has demanded immediate payment of arrears (inflated by some accounts) plus advance payment for future deliveries. To add insult to injury, Russia now claims ownership of some promising oil and gas properties offshore from Crimea—no compensation offered for those, needless to say.

*EU-Russian gas trade.* The gas trade between Russia and the EU is a variant on the same story, except that this time EU commercial interests, rather than a fellow guardian autocrat, were on the other end of the deal with Gazprom. European proponents of the deal sold it as offering access to a geographically convenient source of gas at a reasonable price. Some seem to have imagined that since the price was profitable to both sides, Russia would have an economic incentive to avoid conflict.

From the start, though, the deal had built-in asymmetries. On the Russian end, a single entity, Gazprom, controlled the shut-off valve, while multiple government and private buyers on the Western end lacked the unity of purpose they would need to credibly threaten a buyers' boycott. Furthermore, Western Europeans, who had always looked at Russian gas primarily in commercial terms, were highly sensitive to the economic costs of any supply interruption. The Russian end, in contrast, stood ready, if push came to shove, to place guardian values (national honor, revenge for perceived affronts like the admission of the Baltic states to NATO) ahead of any economic costs.

*Trade in strategic goods.* Gas is not the only item of East-West trade. The West has contracted both to sell strategic goods to Russia (for example, French-built warships) and buy strategic goods from Russia (for example, rocket engines used to launch US military satellites). Although the trade looks symmetrical in commercial terms, it is asymmetrical in terms of politics and geostrategy. In the West, commercial interests, including the Lockheed-Boeing rocket consortium ULA and French shipbuilders such as DCN, are lobbying furiously to see the contracts through in order to realize hoped-for profits. Western governments are reluctant to override these commercial interests. Meanwhile, the Russian side has other priorities and is willing to selectively observe or cancel such contracts in pursuit of strategic ends, absorbing commercial losses when necessary.

In short, in each of these cases, East-West trade relations give the Western side an economic incentive to avoid conflict while simultaneously giving Russia a weapon to advance its geostrategic interests. The reason is simple: The Western parties believe in trade but the Russian side does not:

- The West views trade agreements as mutually beneficial deals that provide an inherent incentive for peaceful resolution of disputes. The Russian leadership views them in zero-sum terms, to be fulfilled or unilaterally renounced according to a perceived balance of noneconomic factors.
- The Western partners to these deals consider fulfillment of contracts to be the norm, even if changing circumstances make them unprofitable. The Russian side considers it normal to enter into contracts in the expectation that it can renounce or unilaterally revise them if circumstances change.
- Without denying that self-interest plays a role on both sides, it is fair to say that in the West, the ethical framework behind the self-interest assumes shared values of honesty and promise keeping. On the Russian side, in a showdown, there is a significant chance that guardian values like prowess, skill in deceit, vengeance and honor will trump economic self-interest.

#### The bottom line

The bottom line is that trade is a reliable instrument of peace only when commercial considerations dominate on both sides. Asymmetrical trade that has a commercially motivated party on one side and a guardian party on the other risks becoming an instrument of conflict.

In practice, as Jacobs herself pointed out, all existing societies contain a mix of guardian and commercial elements. Bastiat's belief that increased trade will reduce chances for interstate conflict may well be valid in cases where the trade in question strengthens the hand of the commercial elements within both countries. Unfortunately that has not, at least not yet, happened in Russia. Until it does, it would be wise for governments in the West to approach trade with Russia much more cautiously than they have done to date.

Filed under: [Uncategorized](http://www.economonitor.com/dolanecon/category/uncategorized/) (<http://www.economonitor.com/dolanecon/category/uncategorized/>)

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(<http://intensedebate.com/people/ThomasGrennes>) [ThomasGrennes](http://intensedebate.com/people/ThomasGrennes) (<http://intensedebate.com/people/ThomasGrennes>) +3

61p · 7

*7 weeks ago* ([#IDComment832481090](#))

Yes, zero sum thinking is common in Russia and elsewhere, and it is difficult to change. In the U.S. zero sum thinking pervades the White House and the Congress. Putin's Russia lacks credibility in keeping agreements, and it is notorious for failing to protect property rights of political opponents. It protects the fortunes of loyal oligarchs by blocking entry of competing businesses.



([http://intensedebate.com/people/Julian\\_Adorney](http://intensedebate.com/people/Julian_Adorney)) [Julian\\_Adorney](http://intensedebate.com/people/Julian_Adorney) ([http://intensedebate.com/people/Julian\\_Adorney](http://intensedebate.com/people/Julian_Adorney)) 64p · 7 · 0

*7 weeks ago* ([#IDComment832617410](#))

Interesting article; this definitely made me think. I don't know enough about Russia to evaluate the cases you brought up, but I could see how trade between parties where 1 deals in bad faith would tend to exacerbate conflicts.

As an aside, thanks for quoting my article!



(<http://www.economonitor.com/dolanecon/>) [EdDolan](http://www.economonitor.com/dolanecon/) (<http://www.economonitor.com/dolanecon/>) 75p · 7 weeks ago 0

*7 weeks ago* ([#IDComment832685013](#))

Posted for Mark Miller (his attempt failed for technical reasons--EGD)

"Wonderful summary of how Jane Jacobs "Systems of Survival" framework can be applied to relationships between different organizations. I have added the book to my "wish list." Having managed a few sole sourced supplier relationships the differences between how the parties perceive trade seems spot on. It's been awhile since I reviewed Alfred Kuhn's "The Logic of Social Systems", but I think I need to take a look at it again."



(<http://intensedebate.com/people/windriven>) [windriven](http://intensedebate.com/people/windriven) (<http://intensedebate.com/people/windriven>) 44p · 7 weeks ago +2

*7 weeks ago* ([#IDComment832917109](#))

Thought provoking piece, Dr. Dolan. I have long been struck by the wholesale transfer of technical expertise to China in exchange for cheap labor and the transitory bump in profits it affords. China moved in roughly 40 years from third world basket case to presumptive regional hegemon and global trading dynamo, largely thanks to western technology and capital transfers.

Deeply interconnected countries might be less likely to stumble into open warfare but then warfare is a crude method of achieving one's objectives. As Putin demonstrated vis-a-vis Crimea and eastern Ukraine, objectives can be had at much lower cost. Crimea is now Russian, assuring the long term availability of Sevastopol. Ukraine is destabilized, hung on the meat hook of Russian gas, and clear in its understanding that its future stability is as much in the hands of the tsar as in their own.

China is slowly but assuredly establishing a similar situation in the South China Sea region. Local governments - some of them long term allies of the US - are squealing like frightened pigs as China flexes its muscles. But like Europe regarding Ukraine, how far will America go to protect the interests of Vietnam, the Philippines, and ultimately Japan? How much will the US concede to 'flexibility' so as not to disrupt the flow of cash and trinkets from China? What will be the point at which the US says, 'no more.' And at that point, what precisely do we plan to do about it?

It is interesting to read the history of China's entry into the Korean War. China had little in the way of even basic weaponry and some of its soldiers literally carried sticks into battle. But the weight of numbers alone changed the dynamic of that conflict. Fifty years later, China reached out and, with a single missile, destroyed an aging weather satellite. The number of nations with the military capability to carry out that maneuver could be numbered on one hand.

Today when China calls its military to formation, its soldiers are not carrying sticks.



(<http://intensedebate.com/profiles/alastairwinter/>)

alastairwinter (<http://intensedebate.com/profiles/alastairwinter/>) 1p · 7 +3

weeks ago (#IDComment833363137)

Ed's blog led to a spirited but necessarily brief twitter exchange involving Alan Tonelson who suggested there were many similarities between Russia and China. This is especially topical with Putin's visit to Beijing and the signing of a gas deal after 10 wearying years of negotiations. As I write, it is too early to decide but if Alan is right then Russia must have been the loser in the deal.

I like the distinction made by Jane Jacobs between guardian and commercial mentalities but also agree with Ed's saying nations are not either one thing or the other. In fact, risking outrage amongst my US friends I would suggest that the US has distinctly guardian tendencies. Moreover, many US corporation are clearly in the guardian camp. We must not forget President Eisenhower's warning against the 'military-industrial complex' to which might be added Big Oil and Big Pharma. I hasten to add that I deem the British Empire to have been built by guardians in commercial clothing. It must also be said that Russia and China have both suffered humiliation at the hands of the US, UK and the rest of Western Europe over several centuries. The Russian and Chinese regimes may not be democratic or very nice but they are surely entitled to consider the West hypocritical or worse.

I would distinguish between Russia and China in two major ways. Firstly, China has been around for so long that it feels no need to be hegemonic or imperialistic. Unfortunately, long memories also involve zealous pursuit of territorial claims that pre-date modern international practice. Trouble may well arise from these claims but they are not about subjecting millions of non-Russians to the whims of whoever sits in the Kremlin. Secondly, the business of China is business, just like the West. There may be all sorts of shady practices in China but let those who once supported Enron or Arthur Anderson not cast the first stone. It is interesting that the US DoJ regards commercial espionage as somehow worse than state espionage, which seems to be fair game.

To sum up China has to do business with the rest of the world and the rest of the world has to do business with China. Everyone has to get used to each other. Due diligence is always necessary in any deal but I reckon the chances of mutually beneficial deals are much higher with Chinese counterparties than Russian ones. The bigger the deal the more likely this will be the case..



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EdDolan (<http://www.econmonitor.com/dolanecon/>) 75p · 7 weeks ago +2

(#IDComment833387082)

Thanks for migrating this interesting discussion over from Twitter. I love Twitter, but not when there are issues that require extended discussion. I would like to comment on three of your points to an extent of more than 140 characters each.

1. "Nations are not either one thing or the other. In fact, risking outrage amongst my US friends I would suggest that the US has distinctly guardian tendencies. Moreover, many US corporation are clearly in the guardian camp"

I agree. Jacobs view, as I understand it, is that ideally, a healthy society needs commercials to do production and trade and guardians to protect their territory and enforce the rules of the game (contracts, property rights, etc.) However, she notes the possibility of what she calls "monstrous hybrids"--entities that incorporate some values from one "syndrome" and some from the other. However, she doesn't give much discussion to what I view as the two most important types of "monstrous hybrids." Those are (a) corrupt states in which top government officials hold major stakes in private commercial activities, thereby creating monstrous conflicts of interest, and (b) as you mention, corporations. Large corporations, being inherently hierarchical, need to nurture guardian values like loyalty and obedience. They can also nurture tendencies toward exhibition of (bloodless) displays of prowess, such as rogue trading and mergers that end up extending managers' empires but damage shareholders. I'm going to do a whole post on this theme soon.

2. "Many similarities between Russia and China." Yes, there are. Two corrupt guardian states, each a "monstrous hybrid" in its own way. But I think there are differences, too. I have much less of a personal feel for Chinese society than for Russian, but I have read sources, like Fukuyama's book "Trust," that suggest that commercial values are more deeply rooted in Chinese society than in Russia. Something to think about, anyway. Another big difference is that Russia's presence in world trade is dominated by oil exports, whereas China's is dominated by exports of manufactures. I think the latter require a more highly developed commercial culture than the former.

BTW, while on the subject of Russian society, I would like to clarify something that came up in discussions of my post on Twitter, Reddit, etc. Some people commented that my experience from the 1990s was no longer relevant, that much had changed in Russia, etc. I agree there have been many changes. I am sure a classroom full of 2014 MBA students in Moscow would be more comfortable with basic concepts like positive sum trade and other "commercial ideas." The point I should have made more forcefully was that those at the top of today's Russian government DO NOT represent those changes, but rather, carry over traditional guardian values not just from Soviet, but also from Tsarist times.

3. "The British Empire built by guardians in commercial clothing." Jacobs uses the British aristocracy as a classic example of a guardian group, emphasizing its penchant (traditionally) to "shun trade." Everyone has read all those Victorian novels in which aristocratic families relate snobbishly to the upstart commercial rich. So in a sense, we might say that conceptually, the British Empire exhibited the type of division of labor she thought appropriate, i.e., that the aristocratic-dominated military and governing establishment provided protection and law to a dynamic, productive commercial class that, at least for a time, played a peripheral role in high politics. More food for thought.



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EdDolan (<http://www.econmonitor.com/dolanecon/>) 75p · 7 weeks ago +2

(#IDComment833389827)

With the permission of the editors of The International Chronicles (theinternationalchronicals.com) I am reposting this comment from their discussion of their repost of my post:

"The International Chronicles Comments Editor (A.R.) writes:

"Fascinating article and something that I have always been very sensitive to in my business dealings. It always stuns me what percentage of my clients and / or people / enterprises that I have commercial dealings with view doing business with another person and / or entity (me, in this case) as a Zero-Sum proposal...shocking, really...I would say it is about 80%...and I am speaking about EVERYBODY...from small Mittelstand business-men to Presidents of international banks. They all look at it as a contest to see who gets the best of the other. Scum-buckets at heart. No class. Man's opportunistic nature always lurks beneath the shiny veneer of civilization...



(<http://www.econmonitor.com/dolanecon/>) EdDolan (<http://www.econmonitor.com/dolanecon/>) 75p · 7 weeks ago +2

(#IDComment833392757)

Replying to A.R. of TIC:

You say "They all look at it as a contest to see who gets the best of the other. Scum-buckets at heart. No class. Man's opportunistic nature always lurks beneath the shiny veneer of civilization..."

I agree. Modern corporate culture combines elements of Jacobs' guardian and commercial "ethical syndromes." From the guardian side, they borrow values like loyalty and obedience, and at the same time, we see tendencies toward other values that JJ emphasizes, including displays of prowess and ostentation. The results are not even always zero-sum, sometimes they are negative sum, as in the notorious tendency of hostile takeovers to have negative consequences for the shareholders of the acquiring companies.

Also, I don't know if you were just using traditional style or whether you intentionally wrote "Man's opportunistic nature," but I think that some of these guardian values are distinctively male.



Devas · 7 weeks ago (#IDComment833573978) 0

One group that has been left out of this discussion are the banks, Hedge funds and other financial institutions. They are not corporates who produce and trade,

They operate more like guardians than traders.

Their actions create problems for all other guardians and traders.



(<http://intensedebate.com/people/pgdolan>) pgdolan (<http://intensedebate.com/people/pgdolan>) 6p · 7 weeks ago +1

(#IDComment834117138)

As a constant reader of articles on international relations, I can assess the high value and credibility of your contribution. The interlock or mesh of your own experience as a business professor in Moscow, the theses presented by Jane Jacobs in her book, Systems of Survival, and Putin's background and behavior all contribute to the general acceptability of your conclusion.

Boris Jeltsin's vision for Russia's future contrasts sharply with Putin's. To confuse the two can be to make a fatal mistake – or at least one that could be very costly.

Quoting Jane Jacobs's competing value systems of guardians and commercial types/ trader, you make it very clear that the ethics of our society make it difficult to create win-win scenarios with Russian counterparts. We in the West are at the mercy or goodwill of the "guardians."

George F. Kennan's policy of Containment in 1947 launched a new approach to dealing with Russia and became a premise of American foreign policy for fifty years.

You have provided a framework or grid for decision makers to evaluate Russian intentions and the risks of doing business with Russian. It is a very good piece. We will twitter it to all our politicians.

Congratulations!  
Paul



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(#IDComment834117464)

Paul  
thank you - excellent analysis.

I have to say that I am deeply embarrassed and disgusted by the German population's reaction to the Ukraine crisis. I would have thought that having suffered so badly under a totalitarian regime ourselves first, and then under the Soviets later - that there would be a recognition of the dangers of dealing with a corrupt Russian leadership. But no - the overwhelming sympathy and even adoration goes to those rulers, and the suffering masses are ignored. It is true that we cannot entertain a military escalation - but it was clear since years, that one day Europe's reckless dependence on Russian gas would boomerang back on us, and now it has. And we are still not willing to take the right steps out of this.  
Very disappointing.

Prof. Peer Ederer  
HBS Alumnus; Prof. Zeppelin Univ. Germany

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(#IDComment834118801)

I was meaning to read this article, but just got around to it today. Very enlightening AND a MUST READ for anyone who is working with people who are Russian or of Guardian type. This definitely sheds light on when I worked for 1-800-Insurance as a sales agent why my relations went so wrong. I wish I had read this then!!! I came into the company in a dominant fashion and as I accepted the position I became relaxed and worked hard but noticed that they kept asking me for things and I always said yes! This created a level of contempt in my Russian bosses. They wanted to play the game and be recognized with the same level of deceit and honor. I had no idea and thought that this kind of system only existed in Arab countries. Kevin Dolan

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(#IDComment837348389)

Ed,  
Thank you. This is an excellent analysis.

I have to say that I am deeply embarrassed and disgusted by the German population's reaction to the Ukraine crisis. I would have thought that having suffered so badly under a totalitarian regime ourself first, and then under the Soviets later - that there would be a recognition of the dangers of dealing with a corrupt Russian leadership. But no - the overwhelming sympathy and even adoration goes to those rulers, and the suffering masses are ignored. It is true that we cannot entertain a military escalation - but it was clear since years, that one day Europe's reckless dependence on Russian gas would boomerang back on us, and now it has. And we are still not willing to take the right steps out of this.  
Very disappointing.

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As someone with quite deep knowledge of the Chinese situation, having worked there and travelled there since 1988, I am quite surprised by people entertaining the idea Russia and China are similar. Of course with extensive travel it is obvious basic human nature is quite similar everywhere, but I guess that is not what is meant. In which case it is quite clear from the history of relationships between China and Russia that they do not have an easy relationship. Chinese culture is quite individual at the bottom. It is a really old and mature culture with a long tradition of relatively good education. They have a commercial tradition of win-win in the basis, with a different twist. In their traditional commercial relations they use a third type: balanced win-win or dynamic win-win. The goal of such a relationship is to keep the relationship healthy, which of course is not possible if one side is losing all the time. The key difference with traditional win-win thinking is that a contract need not be honored, it needs to be a flexible starting point for keeping relations healthy. In practice this means that if one side has an unexpected large loss it is acceptable to renegotiate and in general contracts are more shadows of the actual relationship instead of the relationship being a shadow of the contracts. This is actually a type of dynamic win-win you see a lot in symbiotic relationships in supplier-customer clusters in Western economies. I am especially familiar with such clusters in the high-tech industry. A good example is ASML in my country, with a wide network of high-tech suppliers that need to be healthy to be able to keep up with the speed of innovation. It is also the basis for working on sustainability by companies like Unilever. Requiring suppliers to work in sustainable ways, often in the short run increasing costs, of course requires trust of not being thrown out as a supplier at the first cost-cutting whim at Unilever.

In general I am a bit wary of oversimplified classifications, they tend to create a sort of black-white thinking. It can be very helpful for practical dealing to keep such a dual-typing in mind while doing practical negotiations, but it should not be carried too far. It is certainly dangerous to base (inter)national politics on such oversimplified ideas.

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Thank you. Concept of balanced win-win is useful.

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As to the idea that the British were mainly ruled by rentier aristocrats, it is enlightening to re-read The Wealth of Nations by Adam Smith. Adam Smith in that wonderful work provides a great historic description of the commercial nature of several European countries. The interesting thing is that to this day the sort of general national attitude he described for Britain, The Netherlands and France still very much holds. And the same is true for Germany over the centuries. Britain has always been a nation striving for open trade and capacity building (creating quite good government in their colonies), as it still does today, with a very open labor market, vibrant financial market and in general free trade habits. France has always had a tendency to create monopolistic structures with quite a high level of state influence, as can be seen today with large elite-governed state companies, extremely powerful brands, all sorts of food monopolies (champagne, grand cru classe, etc). The Netherlands have always been primarily traders and investors, as we are today, with huge capital pools available relative to population size and with very extensive and flexible trade relations. Germany has for a very long time been the crafts powerhouse of Europe and still is today the clear practical technology leader in Europe.

With Piketty there is a renewed tendency to look at the aristocratic times as rentier heaven. But that is only true for a rather short period

of that history. It does not look deep enough into history. For instance in the Golden Age of the Dutch Republic, and especially building up to that republic, being a pampered rentier was an illusion. In these days wars swept over the country, possessions were taken over quite often by simple beheading the former owner, fortunes were easily made and lost. The rather static picture that is painted by the over-focus on a relatively quiet period of aristocracy, misses the point that all these castles and fortifications were of course built because life was not relaxed and peaceful at all. Many (if not most?) of these castles have a history of having been built, destroyed, to be rebuilt (several times). A similar story is also true of the Dark Ages. Again fortifications tell the story as well as city walls, fortified churches and monasteries. No sit-back-and-relax rentier type of environment.

Relying too much on novels can seriously distort ones view of history. If people would look back at our times through television-series what would they think? "Well in the 20-th century the US and Europe were swept by crime, which is obvious from all the police-series and detective-series. Murder was widespread in cities, with shootings the norm of the day. This can be explained by the widespread extreme inequality and rentier-style riches as can be seen from long running series as Dallas and Dynasty, or later on As-the-world-turns."

It would probably be better to read the excellent three volume work "The rise and fall of the Dutch Republic" by J.L. Motley, written in 1855. I happened to find it in the library of a dear friend of mine who passed away and found it very enlightening. Even though this work has been criticized for being too eager to tell a story around the hero William the Silent, it is not contested for describing the main events and the massacres that happened when cities were conquered and its population molested and its leaders beheaded. This was most certainly not an easy life-style time to live in still to be formed Dutch Republic, say in 1500-1600.