



EXECUTIVE REPORT

2016 BMI Conference in Helsinki, Finland

15-17 Sept. 2016

1. Introduction

In the face of so many global challenges in the contemporary world, the Boris Mints Institute periodically brings together the best researches and highly respected members of the international community to reflect on those challenges and suggest strategic policy remedies. The joint forces of a solid theoretical-analytical background and practical perspective offer unique perspectives on problems evoked by recent changes in the international arena.

The 2016 BMI conference's main objective was to provide an in-depth understanding of the International System in 2017 and cautiously assess how the international arena would be affected by the results of the general elections in the US, given current developments in Russian politics. How the tensions between the East and the West would affect specific focal points of tension such as Syria and Ukraine. How Russia's engagement in Europe would evolve in the next decade and what would be its impact on the sphere of world politics and economics. Finally, the most recent and unexpected development in European politics – Brexit – was analysed: its causes and consequences on the national and supra-national levels. This executive summary of the themes discussed is provided to you by the BMI group.

2. The Third Millennium Multipolar and Multivector World

Recently, we experience a visible decline in the popularity of the idea of globalisation, which dominated the world for some four decades. Creating a vision of an international communist society and promotion of liberal democratic values around the world as means of unification

2016 Year Macroeconomic Forecast

GDP growth rate (%)	Fact of 2015 year	UN	World Bank	IMF	2017 OECD Forecast
Total World (purchase parity)	3,1	3,1	3,6	3,2	3,3
USA	2,5	2,2	2,7	2,4	2,2
Euro Zone	1,5	1,7	1,7	1,5	1,7
Japan	0,6	0,5	1,3	0,5	0,6
China	6,9	6,4	6,7	6,5	6,2
India	7,3	7,3	7,8	7,5	7,3
Brasilia	-3,7	-3,4	-2,5	-3,8	-1,8
Russia	-3,7	-1,9	-0,7	-1,8	-0,9

of mankind have proven to be counter-effective in the long run. In a new multipolar and multivector international order, globalisation practices and ideologies provoke a revival of suppressed conservative ideological values, such as regional separatism, religious particularism and extremism. The globalisation crisis is illustrated by vivid examples in the rhetoric of political campaigns in different European countries, the presidential campaign in the USA and the referendum in the UK that led to Brexit.

Several economic and social factors can be pinpointed as the main triggers of the gradual waning of the globalisation paradigm. Economic growth rate of the developed countries has slowed down to 1.5-3.0% per year, whereas income inequality has considerably increased with the transition from a welfare state model to neo-liberal values and practices. Job skills inequality prompted by the new post-modern, techno-advanced world outset has significantly deteriorated living standards not only of the working but also of the middle classes.



The macroeconomic forecast is rather gloomy. According to the PwC analyst’s poll at the 2016 Davos Economic Forum, 66% of the top-managers stressed the growth of risks for investors. 73% predicted the economic stagnation for the next year. The following top-risks and challenges were stressed: excess government regulation – 79%; geo-political instability – 74%; exchange rates volatility – 73%; cyber-attacks and lack of security – 61%.

Top five Global Risks for Next 18 Months Realization Probability in %

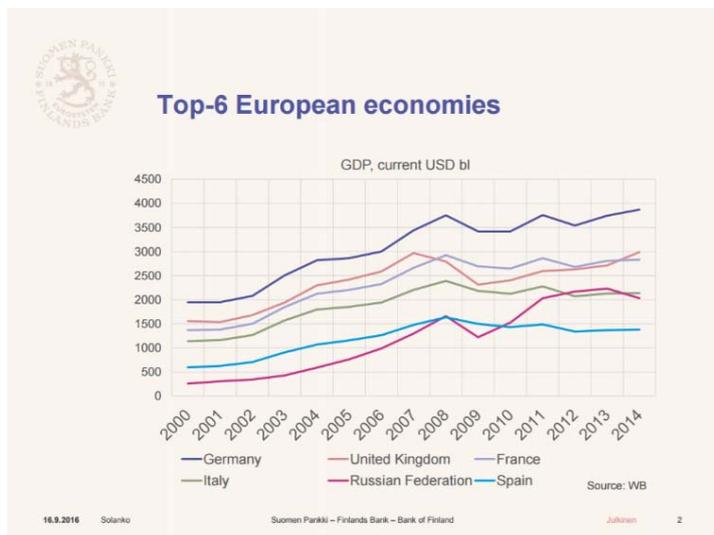
Non voluntary migration	52,0%
Government management collapse	27,9%
Geopolitical conflicts	26,9%
Unemployment	26,0%
National management failure	25,2%

A multipolar world is unstable and volatile by nature. Despite the fact that this concept enjoys some popularity among many prominent leaders, it is important to balance multi-polarity by stabilizing the situation in the political arena and avoiding global risks, such as financial and economic crises, civil and international conflicts, and the threat of new nuclear powers.

Source: World Economic Forum. *The Global Risks Report 2016*, 11th Ed., January 2016

The 2016 BMI convention evoked the urgent need in dealing with those looming global crises through an open dialogue and cooperation between political and other social sciences, economic perspectives and the “real” world. The role of such discussions lies in explaining that international affairs cannot and should not be reduced to “zero-sum games.” One country’s “plus” is not necessarily translated into “minuses” of other countries. The major task at hand is to prevent military danger, set the rules of peaceful coexistence among different nations and international organizations. These goals can be met by means of close cooperation in business, education and healthcare among all the participants in the global arena. Adjustment to the rules of a new multi-polar world and abandonment of unilateral decision-making models would benefit all the players in the sphere of international politics.

3. Russia as an International Power



Recently, Russia’s GDP has been growing fast and it was becoming one of the top 6 European economies. Economists explain this growth rate by a set of domestic factors, rooted in the benefits of the reforms of the 1990’s and the early 2000’s that led to a better utilization of the country’s capacities, and benefits of rapid globalisation, such as liquidity of global financial markets and steadily increasing prices for key raw materials.



However, the on going war in Ukraine and Russia's 2014 annexation of Crimea, have dramatically altered the promising economic outlook. Russian military engagements not only resulted in increased expenses, but also cast a shadow of uncertainty on its economy and investments. From being the 5th world largest Foreign Direct Investment (FDI) exporter in 2013, Russia's place in the global OFDI (outward foreign direct investment) stock avalanched almost over-night.



The war in Ukraine and Russia's breach of the Finnish-Russian border¹ regime incident in 2015 set a different tone of the security policy debate in the geo-political arena in general, and the bilateral relations between Russia and its Scandinavian neighbours in particular. In the fall of 2015 Russia allowed third-country nationals without proper visas to cross over, thus not only violating long-established border regimes with Finland and Norway, but also making a statement about Russian power. As a result of their Eastern neighbour's behaviour and the geographical proximity, the Nordic states' debate regarding the possibility of NATO membership is gaining intensity that can be compared only to the Cold War times. Finland's NATO membership² is a logical continuation of integration with Western structures that have fostered Finland's economic success, however it could provoke a severe crisis in Helsinki-Moscow diplomatic relations and the magnitude of Russia's reaction to crossing of this red line is hard to predict.

4. *Brexit – Causes and Consequences*

The impacts of Brexit are still hard to estimate, but the question regarding what led England to this decision reverberates since the results of the June 23, 2015 UK referendum. The dominant reason for the majority of British citizens voting "leave" was democratic and was deeply rooted in their conviction that decisions regarding the UK should be made by the UK, by its citizens. However, what made them reject the idea of a homogenized European Union and decide against remaining a part of it? The answer to this question lies in several domains.



First, British enthusiasm regarding the predominance of the EU, its institutional arrangements, policies and their underlining ideology was relatively low from the start. The transition to post-materialism prompted by the "silent revolution" has introduced a new mind-set, which calls for a critical and sceptical attitude towards political and social authorities and for challenging the elites, especially if they fail to represent citizens' needs.

¹ For more information on the Finnish-Russian migration crisis see:

<http://www.osw.waw.pl/en/publikacje/analyses/2016-04-06/enforced-cooperation-finnish-russian-migration-crisis>

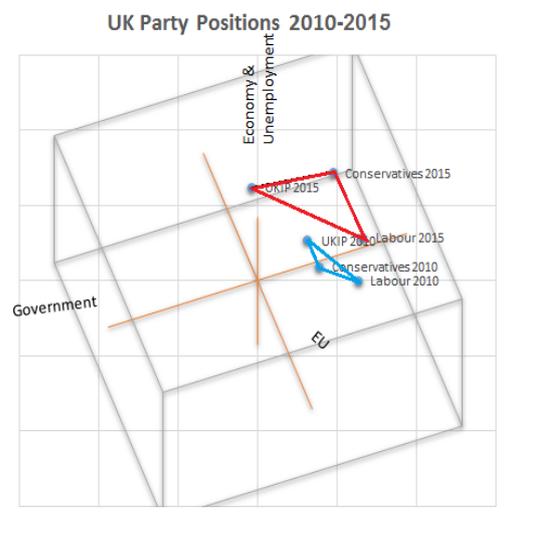
² <http://formin.finland.fi/public/default.aspx?contentid=345685&nodeid=49298&contentlan=2&culture=en-US>



The EU influence on member states is often known to generate anti-EU sentiments, otherwise known as Euroscepticism. Indeed, there seems to be a clear correlation between the triumph of liberalism and multiculturalism in European politics and a growing public resentment to advancing immigration policies, liberal socio-economic treaties under the Brussels government and a pervading distrust of the European political sphere.

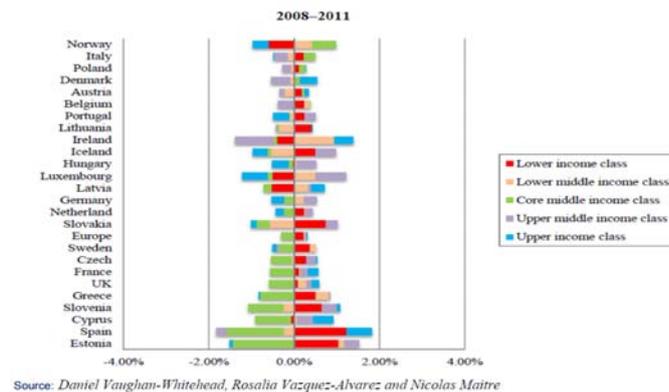
Over the last few decades Britain has become even more pessimistic about “late joiners” to the EU than other Member States and has increasingly isolated itself in the EU Council as well. This situation is a fertile ground for the rise and success of new radical parties (NRPs), which in the vein of “silent counter-revolution” oppose the EU dominance, striving to preserve national identity and old values.

The UKIP, an outspoken Euro-pessimist, has not only made the disillusioned electorate’s voice heard, but also created a major shift in British party politics. The cube on the right illustrates the shift in the two biggest mainstream parties’ positions trying to win prominence over a new political dimension, introduced by the UKIP – the EU. New dimensions in party politics upset existing balances. Mainstream parties that enjoyed a certain degree of hegemony need to reposition themselves according to the new rules of the game. The blue triangle shows the balance of power between three parties – the Conservatives, Labour and UKIP – at the 2010 election. The red triangle demonstrates the mainstream parties’ shift in the negative direction on the EU dimension, illustrating profound impact of this realignment that eventually led to the Brexit.



Another important aspect stems from economic changes recently faced by the majority of Western societies – the transition from industrial welfare capitalism to post-industrial individualized capitalism pushed many citizens to the margins of society. Individual determinants of the support to leave the EU show that a high percentage of low-skilled, less educated, and older segment of population with lower income voted for Brexit.

Changes in the size of the middle class



Source: Daniel Vaughan-Whitehead, Rosalia Vazquez-Alvarez and Nicolas Maitre

Interestingly, the same social stratum is known to constitute a significant part of the new radical right parties’ electorate, such as the UKIP.

The recession of 2008 has set a pace to a new economic phenomenon in European society. The diagram on the left shows the erosion of the middle class in European countries. According to the data, the percentage of the core middle income class is declining, while the percentage of lower income classes



is on the rise. The decline of the institutions of the welfare states that protected the middle class and the difficulty of members of the middle class to protect themselves by acquiring the education needed to self support in the new techno-world, contributed to the vulnerability and the downward mobility of the middle classes in advanced economies. The EU's inability to manage complex economic issues, such as economic and refugee crises, the influx of work-migrants into the EU member states and distribution of social benefits according to the socio-political change, played a significant role in the decision of UK citizens to leave the EU.

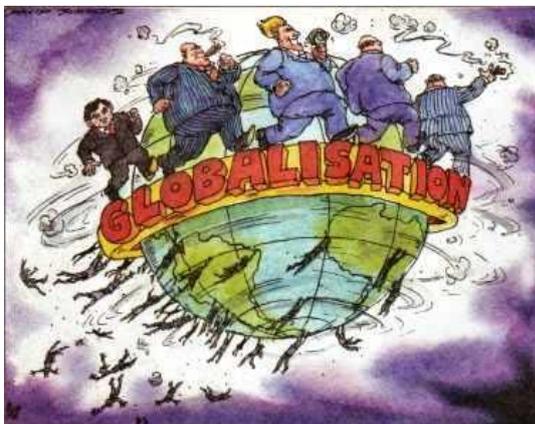
Two options, referred to as “Soft Brexit” and “Hard Brexit”, present a series of challenges for the UK and the EU. From a political perspective, the UK's Labour could find itself losing popular support especially in Northern England, which puts the mere existence of the Labour Party at risk. On the other hand, the growing popularity of UKIP, at the expense of the Labour's electorate could change the distribution of power in the political arena, thus changing the course of the UK's politics and policy-making. Brexit could also prompt the decision of Scotland and Northern Ireland to leave the UK, leaving the geo-political status of Great Britain with more question than answers. The EU's political manoeuvre may or may not make the consequences of Brexit irrefutably harsh for the UK in order to prevent other countries from similar decisions and eliminate possibilities of Frexit, Nexit or Swexit.

From an economic point of view, the Treasury forecasts a 2-5% fall in the UK GDP over the next 5 years. The falling pound is likely to trigger inflation and even economic recession. The declining trade with the EU, which currently comprises 50% of the UK trade, would force Britain to either comply with the demands of the EU or look for new trade partners. Thus the economic consequences of Brexit for the UK largely depend on its ability to establish successful trade relations with either the EU or other world mega markets.

The Geo-political Assessment of the Global World

The Winner Takes it All?

Contemporary Western societies are challenged by two large-scale processes – globalisation and modernization – that create new winners and losers. The winners are well-educated, employed and well-integrated into the post-industrial society; whereas the losers are groups of “social outcasts” – under-educated, low-skilled people struggling to fit into the new set of values, but unable to catch up with the quick pace of modernization and adjust to the changing technological and cultural environment, thus reducing their abilities to compete in the labour market and be equal members of the modern society.



With the decline of the welfare state and the introduction of a new set of values indorsing international trade, open borders ensuing in waves of work-migration, problems of distribution and re-distribution of resources become acute for the “losers of modernization” in particular. However, not only lower strata, also referred to as blue-collar workers, found themselves struggling to preserve their economic and social wellbeing, large numbers of members of the middle class are also affected.



Populism emerges “when existing representative institutions are viewed as incapable of responding to widespread frustration and discontent [of the people].”³ A wave of radical populism and nationalism swept across many countries in the world resulting in the rise of popularity of leaders, eager to provide voters with simplistic combinations of liberal market and restoration of profound national values. In other countries religious extremism thrives on fertile grounds of people’s social and economic insecurity. Leaders of advanced and developing economies must find new, sincere and effective policies to address and attend to the needs of the lower-skilled, triggered by global changes.

Technology

Technology is a locomotive of economic growth; its fundamental influence can be demonstrated with examples such as Belgium after WW2, and Israel, Hong Kong and Finland more recently. In the era of globalization technology does not recognize borders, whether they are geographical, political or cultural.

Nonetheless, the impact of a rapid technological advances on the working and middle classes seems to be negative as low-skilled workers are being replaced by technological solutions, increasing unemployment rate among them. Those technological advances gradually affect more lines of work in which humans can simply be replaced by machines.

Geo-Political Outline of the Distribution of World Power

The Cold War divided the world between two super-powers. After the collapse of the Soviet Union a relative hegemony of the US characterized the next three decades. Now, a new multi polar multi dimensional era of international relations is emerging. The gradual weakening of global powers, such as the US and the EU along with the strengthening of small nations brings along a new distribution of power allowing small countries to lead important world developments.



The role of the US in the world politics is yet to be determined depending on the results of the coming general election. While Clinton’s foreign policy is not expected to differ much from Obama’s, Trump’s foreign policy is veiled by a considerable uncertainty that poses a serious challenge to the global community. India and Russia can become central partners in world geo-political climate. It is against this background of decentralization that growing aspirations of China, Russia, India and so many smaller nations in the international arena are being shaped.

A similar process of decentralization is taking place at the state-level. As the vision of greater Europe controlled by Brussels is gradually fading away, local authorities are gaining power. When the state is not effective in addressing citizens’ needs, cities take power. The transition of authority from the state to the local level is reshaping the entire globe.

³ Philip Oxhorn, “Understanding Latin America’s Populist Scourge: Problems of Popular Sector Class Formation and Collective Action” (paper presented at the International Congress of the Latin American Studies Association, Guadalajara, Mexico, 1997): 20.



Towards a More Optimistic Future

Throughout history, major global changes required a period of adjustment. Just like agrarian rules were not applicable in the new industrial society, low-skilled workers need to receive proper education in order to fit into the new digital era – a goal, which requires time and effort, however once achieved, it can become a powerful engine of the modern society and foster economic growth. Conversely, if technology and technological education are neglected, the winners of modernization will be too few and the losers too many.

Populist and anti-establishment sentiments, which are deeply rooted in the crisis of representation in Western democracies, can be tackled by strengthening municipalities. The relationship between citizens and local authorities can not only reduce public alienation towards state-level institutions, but also help resolve the issue of the SMEs.

Problems of economic growth can be addressed by utilizing the experience of the developing countries by the developed ones, of the small countries by the global powers. Remains to be seen if every country can re-invent itself as a start-up nation, but technology powered growth should be better managed rather than objected to. Its fruits must be more adequately redistributed rather than be allowed to divide the communities it affects.



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