



**CANADIAN GLOBAL AFFAIRS INSTITUTE**  
**INSTITUT CANADIEN DES AFFAIRES MONDIALES**

# **NATO's Challenge: The Economic Dimension**

by Ian Brodie  
September, 2017

# NATO SERIES

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## **NATO'S CHALLENGE: THE ECONOMIC DIMENSION**

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Member of CGAI's Advisory Council  
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Since the end of the Cold War more than 25 years ago, western governments have sometimes wondered if NATO had a continuing purpose. The collapse of the Soviet bloc ended the Warsaw Pact's direct threat to the western liberal democracies. Western leaders hoped that the economic integration of former Soviet bloc and other illiberal countries into a globalized economy would dissolve any remaining authoritarian tendencies in Eurasia and elsewhere. An expansion of free markets and democracy would produce a double hit of stimulus for NATO members – a peace dividend from reduced military spending and the added economic opportunities of a freer global economy.

While many of these hopes have been realized – democracy and free market economics have become the norm in many former Soviet satellites and millions have been lifted out of grinding poverty – it is now obvious that NATO has a continuing mission. Hopes for integrating some illiberal regimes into a globalized, democratic world proved to be overly optimistic. While western leaders hope better regimes emerge in Russia and elsewhere, they also realize that deterring Russian adventurism today is almost as important as deterring Soviet adventurism was a generation ago.

The military side of the challenge has changed. The geography of Russian power has shifted since the end of the Warsaw Pact. Some points of traditional defence have become simpler while others have become much harder. Canada now has a role in one of the more difficult points of defence with its deployment to Latvia. The ideological nature of the challenge has also changed. The divide between communism and capitalism was easier to understand than the contemporary divide between liberal and illiberal regimes. The latter have been aggressive in promoting their political and economic models and have attracted new partners. Making the case against these new ideologies both in Canada and abroad is trickier. Defending western democracies against new modes of aggression requires new strategies and doctrines. Democratic countries find it difficult to defend against hybrid and information warfare. Fortunately, Russia has a deeper and more vibrant civil society than the Soviet Union did. Our strategies will have to find ways to accommodate these changes.

While NATO members are grappling with the military and ideological aspects of the new challenge, the Alliance is much less advanced in rising to the new economic challenge. Western leaders contained Soviet ambitions by creating a western, international and democratic economy that excluded the Soviet bloc. Reinforced by institutions like the Organization for Economic Cooperation and Development (OECD), the World Bank, the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT), our economic bloc did as much as NATO's political and military preparations to bolster the western nations against our rivals. It forced Soviet leaders to create their own, less efficient, less successful economic bloc in the Council for Mutual Economic Assistance (COMECON). Keeping the Soviet bloc out of the western



international economy limited Soviet economic influence over the democracies and ensured the western economic sphere ran on liberal economic and political assumptions.

With the end of the Cold War, western democratic political leaders rightly moved quickly to extend the western international economy to the liberalizing and democratizing states of central and eastern Europe, southern and Southeast Asia, Latin America and Africa. The European Union, the World Bank, the IMF, the World Trade Organization (WTO) and other institutions of the western global economy were opened up to new members. The European Bank for Reconstruction and Development was specifically tasked with bringing central and eastern European countries, including Russia, into the economic order. These institutions and the global economy they sustained were thought to be subtle but effective instruments of western political interests, able to export democratic politics and free market economics to new climes.

The assumption that the global economy dissolves authoritarian politics in Russia and elsewhere has been proven overly optimistic. Instead of undermining illiberal politics, opening world economic markets has given those regimes new tools, first to preserve themselves in power and, second, to extend their influence. Expanded Russian trade and investment have shifted the balance of political forces in democratic countries. Russian oligarchs use global economic integration to move their cash and their spending to the luxury ends of western capitals. This complicates the calculus when imposing sanctions or other tactics. Illiberal regimes use their access to the global economy to subvert the political will of the democracies and exploit weaknesses in international trade agreements to expand their state-connected economic enterprises overseas. Furthermore, as western firms rush to do business with illiberal regimes, their public officials become enamoured of post-retirement work opportunities in the service of those regimes. Globalization and its international institutions were supposed to dissolve authoritarianism; instead, they have weakened our ability to resist authoritarianism.

In the Soviet era, Russian natural gas exports to western Europe were an exception to the divide between the western economies and COMECON. Now, such exports, and the strategic influence they bring, are part and parcel of an economic integration that shapes the domestic politics of the NATO countries, while reinforcing the strength of the illiberal regimes. The techniques of western economic sanctions have advanced since the end of the Cold War, but this new global political economy has made it harder to muster the political will to implement and enforce them.

## ▶ **About the Author**

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