

NOREF Policy Brief

Russia assumes and exploits the chairmanship of the G20

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Executive summary

Russia's plans for chairing the G20 in 2013 go further than staging a pompous summit in St Petersburg similar to the Asia-Pacific Economic Cooperation (APEC) summit in Vladivostok in September 2012. Russian leadership feels an acute need to re-establish a solid international profile eroded by the evolving domestic crisis, which undermines the credibility of Putin's regime.

Russia acknowledges the imperative of focusing on economic matters but cannot make much use of its advantage as the major energy exporter because the energy security agenda has declined in importance. There is little understanding in Moscow of how to combine the financial deliberations with the agenda of growth and jobs.

The G20 might find itself compelled to respond to an urgent international crisis, Syria being the most probable case. In such unscheduled discussions, Russia would prefer to side with the emerging powers and seek to exploit their dissatisfaction with the dominance of the West in international institutions.

The development and execution of Russia's intentions in presiding over the G20, and the specific implications for Norway, will be examined in this brief produced in the middle of a one-year term as chair.

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The background

From December 1st 2012, Russia has assumed the rotating chairmanship of the G20, taking over from Mexico and planning to hold the summit in St Petersburg on September 5th–6th 2013. This group has been in existence since 1999 as a consultation mechanism for finance ministers of the G7 (Canada, France, Italy, Germany, Japan, the UK and the U.S.) and of 12 other states (Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea and Turkey), plus the head of the European Central Bank. In 2008, in response to the global financial crisis, the G20 was elevated to the level of heads of states and governments (plus the President of the European Council), holding its first summit in Washington, DC on November 14th–15th. This group did not replace the G8, which continues to function as a “club” of major democracies (plus Russia). In 2013, the rotating presidency is held by the UK, which plans to organise the summit on June 17th–18th at Lough Erne, Northern Ireland.

Russian experience and expectations

The key reference point for the Russian conceptualisation of the G20 chairmanship is the experience of presiding over the G8 in 2006, which was evaluated as being remarkably successful in both cultivating the ties with the key Western partners and presenting in this exclusive “club” the interests of emerging powers such as China, India and even Kazakhstan (see Baev, 2009). The aim of strengthening the positions among the rapidly upwardly mobile “emerging powers” has since acquired even greater importance in Russian policy and Moscow attaches higher importance to institutionalising the BRICS (Brazil, Russia, India, China and South Africa) than other member-states of this proto-organisation. BRICS held its first summit in 2009 in Yekaterinburg, Russia. The problem is that all BRICS states, as well as four of the so-called “Next 11” (Indonesia, Mexico, Turkey and South Korea), are represented in the G20 and so do not need Russian intermediation to voice their opinions. At the same time, the increasingly pronounced authoritarian tendencies of Putin’s new presidency have led to Russia’s

estrangement from the West as the leaders of the U.S. and major European countries, above all Germany, come to recognise the inanity of the engagement strategy.

The most recent experience for Russia is hosting the Asia-Pacific Economic Cooperation (APEC) summit in Vladivostok (September 8th–9th 2012), which was supposed to be a presentation of the dynamic Far East, rich with investment opportunities, but became instead an example of a modern-day “Potemkin village” in the depressed region. Seeking to avoid the impression of staging a wasteful political “show”, Moscow announced that the expenses on the St Petersburg summit would amount to a mere 5 billion roubles (\$165 million).¹ Nevertheless, the ambition is to reverse the trend of contraction of Russia’s international influence. A special website for the G20 chairmanship has been launched and its main feature is President Putin’s special address (the English-language version is available at <<http://en.g20russia.ru/>>).

The politics of economic issues

Russia did not make any noticeable contribution to deliberations at the previous G20 summits but it seeks to target exactly the right issues during its chairmanship year. Its main political-economic asset is its position as the largest exporter of hydrocarbons and it was the emphasis on energy security that helped to secure the success of the G8 summit in 2006. Presently, however, the salience of oil and gas issues has sharply declined, while Moscow is engaged in hopeless quarrels with the EU about the so-called “third energy package”.² Even more significant is the fact that Russia’s interests in high oil prices fine-tuned in a “sellers’ market” are very different from those of other BRICS states. In the G20 format only Saudi Arabia’s aims might coincide with Russia’s (while Moscow avoids any coordination on production quotas with the Organization of the Petroleum Exporting Countries).

1 The costs of chairing the APEC were estimated at 15 billion roubles, while up to 300 billion roubles were spent on construction projects in Vladivostok; see *RIA-Novosti* (2012).

2 The EU–Russia summit in December 2012 did not resolve these quarrels; see *Reuters* (2012a).

The obvious priority for G20 deliberations is global financial turmoil, which could reach a new high in 2013 as the solvency crisis of several EU Member States coincides with the U.S. balancing on the edge of the “fiscal cliff”. Russia with its significant currency reserves could play on these problems from a position of relative strength as, for instance, it bargains with the EU about bailing out the desperately indebted Cyprus (on the ambivalent approach to financial matters see Butrin, 2012). Russia’s own credit ratings are, however, below average because any drop in oil prices would push its budget balance deep into the red. The sustained massive outflow of capital caused by a harsh investment climate undermines plans to make Moscow a major global financial centre. One particular issue that the G20 has to tackle in 2013 is the reform of the International Monetary Fund (IMF) quota system, but Russia cannot figure out how best to manoeuvre between competing propositions; it was rather discouraged, for that matter, by the inability of the BRICS countries to forge a common position against the EU’s candidate Christine Lagarde in the election of the IMF’s managing director in mid-2011.³

Seeking to chart the least controversial course, Putin has placed the main priority on the agenda of growth and jobs, offering to host the first-ever meeting of G20 labour ministers (Reuters, 2012b). What makes this priority rather dubious is Russia’s own sluggish growth, which has slowed down close to zero by early 2013, primarily because of the flight of investment capital. This stagnation undermines Putin’s plan to create 25 million new “modern” jobs by 2020 by pursuing state-sponsored “reindustrialisation” (primarily in the defence–industrial context). This special case illuminates the greater problem of poor compatibility between policies of fiscal austerity and job creation. It is by no means clear that the leaders of troubled G7 states would appreciate priority attention to this problem in the G20 format.

Deviations and complications

In the environment of poorly understood global economic turbulence, unexpected and typically

undesirable complications are certain to interfere with the best-laid business plans and the Russian schedule for the G20 could hardly qualify as one of the best-laid. One issue that spoiled the start of its G20 chairmanship was corruption, as Putin’s address was issued simultaneously with the publication of the Corruption Perception Index (CPI) 2012, which showed that Russia is the most corrupt country in this “club”.⁴ This plain fact makes the initiatives aimed at increasing transparency in financial operations and curtailing money laundering – which are to be drafted at the G20 finance ministers’ meeting in Moscow on February 14th–16th – rather unconvincing.

It is always possible that an escalation of a particular crisis would demand priority attention, as, for instance, the war in Lebanon to a large degree “hijacked” the G8 summit in 2006. Syria remains the most likely source of such an emergency this time around and Moscow has deliberately positioned itself in the very centre of international controversies around this protracted crisis. In the West, Russia’s stubborn resistance to sanctions is often presented as irrational backing of a sure loser, which has damaged its credibility. In Moscow, however, the tough line on Syria is seen as highly successful not only because China maintains a similar position but also because this case pertains to a larger cause of countering Western “interventionism”, which remains a concern for many emerging powers.⁵ It is clear, nevertheless, that, in taking this bold stance against the West, Russia has also damaged its relations with Turkey, which President Putin sees as a key strategic partner, and offended the petro-monarchies of the Persian Gulf, including Qatar, which is a key driver in the Gas Exporting Countries Forum.

Conclusions

Russia’s most obvious ambition in presiding over the G20 is gaining a boost to its international profile, but its efforts at shaping the agenda for

3 One useful examination of this issue is “The case for IMF quota reform” (Council on Foreign Relations, 2012); on Russia’s confusion see Lukyanov (2011).

4 Russia is ranked 133 (together with Kazakhstan and slightly above Ukraine). The closest G20 state is Indonesia (ranked 118). The CPI 2012 is accessible at <<http://cpi.transparency.org/cpi2012/results/>>. A typical comment in the Russian media is by Tsilyrik (2012).

5 This divergence of views is outlined by Lukyanov (2012). The issue will be examined in depth in the research project on Russia’s policy in the Middle East that PRIO is executing for the Norwegian Foreign Ministry.

the as yet rather loose group betray a deeper shift in foreign policy priorities. Instead of positioning itself as belonging both to the world of mature democracies and to that of emerging powers, Russia now casts its lot far more with the latter and seeks to exploit their dissatisfaction with the dominance of the former in international institutions. Moscow certainly wants to make the St Petersburg summit a success and to avoid any scandal, but it will explore every opportunity to emphasise the economically driven contraction of Western political dominance.

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