

# RUSSIA, CHINA AND GLOBAL GOVERNANCE

Charles Grant





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# Russia, China and global governance

## Charles Grant

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## A NOTE ON DEFINITIONS

For the purposes of this report, ‘global governance’ is given a broad scope, as defined in a recent pamphlet from the US National Intelligence Council and the EU Institute for Security Studies: “Global governance...includes all the institutions, regimes, processes, partnerships and networks that contribute to collective action and problem solving at an international level.” (‘Global governance 2025: At a critical juncture’, December 2010.) Multilateral institutions are defined more narrowly: international bodies that constrain the freedom of action of sovereign states, for the benefit of the common good. Most multilateral institutions are formal, rules-based bodies. But informal bodies such as the G20 should also be called multilateral, when peer-group pressure modifies the behaviour of their members.



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## **SUMMARY**

The need for international co-operation has never been greater, yet global governance is inadequate. Whether one looks at the Doha round of trade liberalisation, the climate change talks led by the United Nations, the G20's efforts to co-ordinate economic and financial policies, or efforts to reform the UN Security Council (UNSC), not much is being achieved. 'Multilateralism' – the system of international institutions and rules intended to promote the common good – appears to be weakening. At the same time, the growing influence of China, Russia and other non-Western powers is pushing the international order towards 'multipolarity'.

The nature of the emerging multipolar order remains unclear. Will it be a world based on strong multilateral institutions, or one revolving around balance-of-power politics, in which big countries strive to achieve their objectives by forming alliances or acting unilaterally? The latter seems more likely: the US, which has sometimes championed multilateralism, is becoming weaker in relative terms, and also more prone to unilateralism; the EU, which believes in multilateralism, is under-performing diplomatically and economically; and the increasingly strong BRICS countries (Brazil, Russia, India, China and South Africa) take an instrumental approach to international institutions, usually supporting them only when they have an immediate interest in doing so.

## **Russia and China compared and contrasted**

In many ways, Russia and China have a similar attitude to global governance. Both view it as a Western concept, used by the West to promote the interests of the West; both remain strongly committed to the principle of non-interference in other countries' affairs; both prefer concert diplomacy – informal gatherings of great powers – to other sorts of global governance; both like to use regional bodies to strengthen their positions in their neighbourhood and globally; and in both countries there are struggles and arguments between two broad tendencies – one relatively liberal, that is fairly positive about

engaging in global institutions, and one more nationalist, that is suspicious of engagement.

The big difference between the two countries is that China does not take global governance very seriously on issues of security, but it does engage, when it sees an interest in doing so, on economic subjects. Russia has tended to take the opposite approach: it has been willing to sign up to international rules on security, but reluctant to engage in economic global governance.

Their differing histories and economic structures explain the contrast. China is the world's biggest exporter, mainly of manufactured goods, and therefore has a strong interest in backing international rules on free trade. Russia, by contrast, exports a lot of oil and gas, for which there is no international regime. In the field of security, China is a rising power, increasingly confident of its new-found strength. So it is unwilling to be shackled by international rules on armaments. Russia, though in certain respects a declining power, retains a huge nuclear arsenal. It therefore sees arms control regimes as a means of protecting its status and position.

## Russia

Many Russians who work in and write on foreign policy – whether of a liberal, realist or nationalist disposition – have long been sceptical about the potential of global governance. For the past 20 years, liberal, realist and nationalist tendencies have all influenced foreign policy. Until 2002 liberals and realists were most influential. Then from 2003 to 2008 realists and nationalists were predominant. Since 2008 the picture has been confused, though the nationalists may have become a little weaker. The financial crisis has made Russia aware of its economic vulnerability, the presidency of Barack Obama has led to a smoother relationship with Washington, and the rise of Chinese power has created anxieties in Moscow. However, in the winter of 2011-12, as street protestors criticised Prime Minister Vladimir Putin, and as Russia blocked Western and Arab efforts to

impose sanctions against Syria in the UNSC, the government stepped up its anti-Western rhetoric.

Through all these periods, the centre of gravity of Russian foreign policy has remained realist, focused on nation-states and hard power. Large countries like Russia are inclined to see supranational institutions as protectors of weak and small countries. They prefer concerts of powers, which give them status. The Russian world-view is more focused on power than rules.

Russia is not particularly influential in either the International Monetary Fund (IMF) or the World Bank. Nor has it played an active role in the UN-led climate change talks. Russia's decision to join the World Trade Organisation in December 2011 – after 18 years of negotiation – reveals the country's reluctance to engage in economic global governance. But it also shows that engagers can sometimes win arguments within the Russian system.

As a major nuclear power, Russia takes international security institutions more seriously than economic institutions. However, its support for arms control is not unconditional. When he was president, Vladimir Putin pulled out of the Conventional Forces in Europe treaty, while the current president, Dmitri Medvedev, has threatened to abrogate the New Start strategic weapons treaty unless the US changes its plans for missile defence.

Russia strongly opposes Western-led military interventions – sometimes even more vehemently than China. It complains about the West's double standards: many Americans and Europeans forget about international law when, as with the bombing of Serbia or the invasion of Iraq, the UNSC gives no cover. The Russians use their privileged position on the UNSC to thwart Western attempts to criticise countries with poor human rights records.

Russia is supportive of three regional bodies, which strengthen its hand in its neighbourhood: the Customs Union, the Collective

Security Treaty Organisation (CSTO) and the Shanghai Co-operation Organisation (SCO). Russian leaders are particularly enthusiastic about the Customs Union with Belarus and Kazakhstan, which they hope will deepen and widen into a 'Eurasian Union' that includes countries like Ukraine. But Moscow is not putting much effort into turning either CSTO or SCO into serious security organisations. On its western side Russia resents the current European security architecture, dominated by two clubs from which it is excluded, the EU and NATO. Medvedev's efforts to build 'a new European security architecture' have come to nothing but Russia could still forge closer ties with the EU and NATO.

Russia should take global governance more seriously. A more active engagement in international organisations could help the Russian economy to modernise. And a more successful Russian economy will have increasingly global interests, which international rules could help to protect. Russia should play a more prominent role in international discussions on financial regulation and climate change. It should also re-engage in arms control negotiations with the US and others. There are some tentative signs of a more positive attitude to global governance emerging in Moscow. In recent years, in addition to joining the WTO, Russia has signed the anti-bribery convention of the Organisation for Economic Co-operation in Europe, and come up with various initiatives in the G8 and G20.

## China

Since Deng Xiaoping began his reforms in 1978, China has become steadily more engaged in global governance. However, China's more assertive foreign policy since 2009 suggests that, within the Chinese system, nationalists and realists are winning more of the arguments than engagers. A number of factors may explain this: China's economic growth has surged at a time when the West is in crisis, making China's leaders more self-confident and less willing to accept Western tutelage; yet at the same time problems in Tibet and Xinjiang, and perhaps events in the Arab world, have made them

feel insecure; the growth of nationalist postings on the internet has started to influence policy; and the imminent leadership transition makes China's leaders unwilling to be seen as soft on foreigners.

The rhetoric of China's leaders remains closer to that of the engagers than of the nationalists: they talk of multilateralism. But they see multilateralism as a tool and a tactic for promoting China's interests, rather than – as many Europeans see it – as an inherently superior system.

China remains reluctant to engage in arms control or other sorts of security governance. It takes part in non-proliferation regimes, but Western powers and Russia think China's sale of nuclear reactors to Pakistan is irresponsible. At the United Nations, China has a split identity: in the UN General Assembly, as a spokesman for the poorest countries, it can be rigid and doctrinaire; as one of the permanent members of the UNSC, it may be pragmatic and flexible. China remains attached to the principle of non-interference, because of its history, having been abused by Western powers; because it wants to prevent those powers from interfering in Tibet and Xinjiang, or in its treatment of dissidents; and because it sees economic benefits in supporting regimes that the West finds unsavoury.

China is fairly positive about economic global governance. The ambiguous statement that China accepted at the end of the Durban climate summit, in December 2011, suggests that it may become more willing to accept global rules in this area. It takes the international financial institutions seriously, and sends first-rate people to them. And it has come up with an ambitious if impractical scheme for reforming the IMF's Special Drawing Right, so that that quasi-currency would include the renminbi. China likes the G20, since that forum gives it equal status to the US. Though China has been in the WTO for more than 10 years, it punches below its weight in that organisation, and has not done a great deal to bring about a conclusion to the Doha round of trade liberalisation.

China talks up the importance of regional forums, such as SCO and ASEAN + 3, which have provided some reassurance to China's neighbours that its rise is essentially benign. But in recent years, China's relatively hard line in defending North Korea, criticising Japan and pursuing its claims in the South China Sea has damaged its standing with some neighbours.

What the US says and does has a big influence on China's foreign policy and its approach to global governance. Washington's reinforced commitment to Asian security since 2009 has fed Chinese concerns about encirclement by the US. China worries about the US using its dominant role in some international bodies to thwart Chinese interests. The official line in Beijing is to play down the prospect of a 'G2 world' run by the Chinese and the Americans, for that would imply that China had to take on greater international responsibilities.

As China's economic strength grows, it has a strong interest in becoming a more active participant in global institutions. As the world's biggest exporter, it should do more to revive the moribund Doha round – or make proposals for something to replace it. As a country that, increasingly, invests overseas, bids for contracts in other countries and wants to protect its own intellectual property (IP), it should discriminate less against foreign investors in China, do more to protect IP and sign the WTO code on public procurement.

China needs a radically new approach to security governance. China's neighbours, and other global powers, are not certain that its rise will be benign. China should therefore strengthen the institutions of regional governance in its neighbourhood, improve its record in enforcing non-proliferation regimes, be more proactive in helping to solve the North Korean and Iranian nuclear problems and – for the first time – take part in international talks on reducing strategic and conventional weapons. Such an approach would boost China's soft power and put it in a strong position to ask favours of other powers.

## What role for Europe?

The behaviour of the US and the EU will have a huge impact on the attitudes of the BRICS to multilateral institutions. If Americans and Europeans take global governance seriously, Russia and China are more likely to do the same. But though the US does play an active role in many bodies, particularly those involving economics and finance, the American people are not enthusiasts for multilateralism. The election of Barack Obama, a president who has multilateral instincts – but would probably lose votes if he used the word – has not changed a great deal in that respect. Because Americans live in the world's number one military and economic power, feeling self-reliant and secure, few of them wish to enhance the power of international institutions.

The Europeans have a much better record of signing up to multilateral agreements. Since the EU is the world's biggest economy, and its member-states play a leading role in many key institutions, it has the capacity to influence the shape of the international system. However, severe economic problems have diverted European leaders away from several international challenges, including global governance.

Most European governments know that they have a big interest in effective multilateral institutions. Given that emerging and re-emerging powers will influence those institutions, the EU's relationships with the BRICS are of crucial importance. In managing its 'strategic partnerships' with them, the EU should observe five principles. First, it should emphasise the benefits of global governance – and stay true to its own principles by respecting international rules. That means avoiding unilateral protectionism. Second, the EU should focus these partnerships on just a few, key subjects. Third, the Europeans should stay united, and work with like-minded countries such as the US, to increase their leverage. Fourth, the EU should be willing to bargain with Russia and China, for both sides' mutual benefit. Finally, the EU should always talk about human rights to the governments of such powers, but it should not make the entire partnership dependent on the way they treat, or mistreat, their people.



## The future of Russia, China and global governance

The way that Russia and China develop will have big implications for global governance. Both face the difficult challenge of rebalancing their economies: Russia needs to build up manufacturing and service industries, depend less on oil and gas exports, and create a better business environment that encourages foreign investment; China needs to boost consumption, reduce investment and curb the influence of state-owned enterprises. In both cases, powerful vested interests oppose reform: in China, some sections of the Communist Party, and in Russia, some of the most powerful leadership clans. Rebalancing would curb the power and incomes of elites in both countries. China's economy is much stronger and more diversified than Russia's, yet without rebalancing and modernisation, neither country faces a rosy economic future.

All this matters for global governance. If they overcome their economic challenges and transform their economies, Russia's and China's rulers are more likely to feel confident and successful. They will then be more willing to engage constructively with other global powers. But if the two economies fail to make a smooth adjustment, and suffer from slowing growth and the consequent social unrest, it would bode ill for global governance. Both regimes would be prone to insecurity and paranoia towards the West. Nationalism would flourish in both countries.

The Russia-China relationship is currently the best it has ever been: trade is booming, Moscow and Beijing often work together diplomatically to oppose Western interventionism, and the two regimes avoid mutual criticism. However, both care more about their relations with the US than with each other. The Russians are increasingly fearful of China's economic strength and dislike talk of a G2 world dominated by the US and China. The Chinese are sometimes contemptuous of Russia's economy, but they worry that the 'reset' between Moscow and Washington could lead the former to adopt more pro-Western foreign policies.

There are tentative reasons to think that Russia may be becoming more willing to engage in global governance. That may also be the case in China. The more the Russian and Chinese economies become intertwined in the global economy, the more they are likely to be drawn towards multilateralism.

Scholars who focus on the economics of global governance tend to be optimistic about its future, believing that the emerging powers will buy into and support the existing system. But those who write about security are more pessimistic. They see the rise of China, in particular, as likely to destabilise the system.

The need for global governance has never been greater, yet the ability of the US and the EU to strengthen and shape the international system is constrained by their economic difficulties and by political populism. Meanwhile the BRICS are still inclined to treat multilateral institutions with coyness and suspicion. Their attitudes will be crucial in determining the future of global governance: if they can become 'responsible stakeholders' and adopt some of the values that help to underpin the existing institutions, multilateralism has a future.



# 1 Introduction

Those who wish to see a better-governed world have raised their hopes several times since World War II. The first was immediately after the war, when the United Nations, International Monetary Fund (IMF), World Bank and General Agreement on Trade and Tariffs (GATT) were created. The second period of optimism came in the early 1990s: Russia's unprecedented closeness to the West allowed the UN Security Council (UNSC) to become more cohesive, President George H W Bush spoke of a "new world order", the world's first treaty on climate change was agreed in Rio de Janeiro, several international criminal courts were established and the GATT was transformed into the World Trade Organisation (WTO). And then in 2008-09, after the financial crisis struck, the G20 started to meet at heads of government level, becoming a crucial steering committee for the world economy. The G20 gave emerging powers a bigger stake in global governance, and had some success in co-ordinating economic stimulus packages, fostering new rules on bank capital and boosting contributions to the IMF.

But in the early years of the second decade of the 21<sup>st</sup> century, the prospect of effective global governance has darkened. Since the London summit in March 2009, the G20 has run out of steam. It serves a purpose as a talking shop, but little of significance is decided at its meetings. Its key members seldom consult each other before acting on issues that are supposed to be on the G20 agenda. The November 2011 G20 summit in Cannes produced plenty of promises and platitudes – but little of substance on global economic imbalances, reform of the international monetary system or the eurozone crisis.

Meanwhile, the WTO's Doha round of trade liberalisation, launched in 2001, has more-or-less died without a conclusion.

The Copenhagen climate change conference at the end of 2009 achieved very little. The follow-up in Durban, two years later, was less acrimonious and more constructive, though its decisions are unlikely to prevent global temperatures from rising significantly. The UNSC, still reflecting the global balance of power in 1944, remains unreformed; the longer emerging powers such as India and Brazil are denied permanent membership, the more the legitimacy of the United Nations is undermined. Early in 2011 the UNSC responded to Colonel Gaddafi's attacks on Libyan rebels by passing two resolutions which led to international intervention and, ultimately, regime change; but for the next year Russia and China prevented the UNSC from criticising the Syrian regime for attacking its own people.

The need for co-ordinated international action to tackle challenges such as financial disorder, climate change, terrorism, proliferation, organised crime and pandemics is greater than ever. Yet 'multilateralism', the system of international rules and institutions with which governments seek to tackle global challenges, seems to be weakening in several areas. This trend has coincided with a strengthening of 'multipolarity' – the shift from the 'unipolar' world of the 1990s, when the US was the only superpower, towards multiple and competing power centres. These two trends are related.

The movement of power to the east and the south is not military – the US accounts for almost half of world defence spending – so much as economic. The predictions in Table 1 suggest that by 2030, on a purchasing power parity basis, China will have a much larger economy than the US, the EU will be a little smaller than the US, and India will be two thirds as large as the EU.

**Table 1: Economic power in 2030\***

Country or group of countries	GDP 2010 \$ billion	GDP 2030 \$ billion
China	10,203	47,440
US	14,527	35,950
EU**	15,168	33,880
India	4,184	22,783
Japan	4,299	7,823
Brazil	2,172	7,183
Russia	2,226	6,567
Mexico	1,835	5,071
Indonesia	1,030	4,531
Republic of Korea	1,476	4,446
Turkey	966	3,248
South Africa	524	1,748
Vietnam	277	1,081

Source: *Economist Intelligence Unit*

\* All figures nominal GDP, on a purchasing power parity basis.

\*\* Excluding Malta and Luxembourg.

At market exchange rates, the developing countries accounted for 38 per cent of global GDP in 2010; on a purchasing power parity basis, their GDP overtook that of the developed world in <sup>1</sup> *The Economist*, 2008. In 2010 the developing world accounted for *Economics Focus*, August 6<sup>th</sup> 2011. more than half of global exports.<sup>1</sup>

During their rise, emerging and re-emerging powers have made use of the rules and institutions that Western countries inspired or created. But that has not prevented the West's diplomatic strength from gradually ebbing. The US and its allies have failed to persuade

Iran and North Korea to abandon their nuclear programmes. Both the Arab revolutions and the Americans' failure to foster peace between Israelis and Palestinians have left the US less influential in the Middle East than at any time in the past half century. The influence of China in parts of Africa and Latin America has grown, while countries such as Brazil, South Africa and Turkey have become more significant diplomatically.

Though the world is moving towards multipolarity, the nature of the emerging multipolar system remains unclear: will it be one based on multilateralism, or one driven by balance-of-power politics, in which powers strive to achieve their objectives by forming alliances or acting unilaterally? Or, to quote one American

<sup>2</sup> John Ikenberry, *The future of the liberal world order*, *Foreign Affairs*, May/June 2011.

scholar, will liberal internationalism “give way to a more contested and fragmented system of blocs, spheres of influence, mercantilist networks and regional rivalries?”<sup>2</sup>

Evidently, the international system will be based on a mixture of multilateralism and balance-of-power politics, but there are three reasons to believe that the latter may flourish. First, the Europeans, being instinctively multilateralist, are keen to strengthen global governance. They take part in all the international institutions and are influential in some of them. But at the moment the Europeans are weak, economically, diplomatically and militarily. This distracts their leaders from international challenges such as the need to strengthen multilateral institutions.

Second, the US veers between unilateralism and multilateralism. Though less committed to global rules than the Europeans, it is usually more serious about economic global governance than the emerging powers. However, the US appears to have entered a phase of relative decline, economically and diplomatically. Its soft power has been undermined by the wars in Iraq and Afghanistan, the financial crisis and the inability of Democrats and Republicans to work together constructively on deficit-reducing and growth-

promoting policies. The US is unlikely to become isolationist – it has too many global interests – but seems to be on a long-term trend towards greater unilateralism.

And third, the newly emerging powers, whose influence is growing, are at best lukewarm towards global governance. They switch between acting unilaterally, bilaterally and multilaterally, depending on how they think they can best promote their interests. The Western powers, of course, do the same. But they tend to take multilateralism more seriously than emerging powers, seeing it not just as a tactic but as a system that promotes the common good. The extent to which the emerging powers support multilateral institutions will have a big impact on the future of global governance.

This report focuses on how two powers, China and Russia, view global governance. As the emerging power with the largest economy, China will play a particularly important role in shaping the international system. Russia, though its economy is much smaller, remains influential: it has a privileged position on the UNSC, a key role in global energy markets and a powerful military arsenal. It is also, alongside China, the only one of the emerging powers with an undemocratic political system (though Russia's authoritarianism is milder than that of China). That is one reason why, on a number of international political questions – such as the emerging civil war in Syria in February 2012 – China and Russia work together against the West.

Evidently, Russia and China are not the only emerging or re-emerging powers that matter. India, Brazil, South Africa, Mexico, Turkey, Indonesia and other countries will help to shape a new multipolar order. But this report focuses on just the two emerging powers that possess vetoes on the UNSC, that have some influence on the Iranian and North Korean nuclear problems, that are obsessed with great power status (China seeks to regain that status, Russia to retain it), and that define their standing vis-à-vis the US. As two US-based academics have written: “Both states have sought

<sup>3</sup> Deborah Welch Larson and Alexei Shevshenko, 'Status seekers: Chinese and Russian responses to US primacy', *International Security*, Vol 34, No 4, Spring 2010.

the benefits of globalisation and economic integration without the accompanying political liberalisation, selectively choosing which Western norms to adopt."<sup>3</sup>

The second chapter of this report compares and contrasts the attitudes of Russia and China to global governance. The third looks in detail at Russia's role in international institutions. The fourth does the same for China. The fifth asks what role the EU can play in influencing the attitudes of emerging powers. The final chapter discusses how Russia, China and their attitudes to global governance are likely to evolve.

## 2 Russia and China compared and contrasted

### Similarities

In common with other emerging and re-emerging powers, Russia and China share a view of the international system that is different to that of most Western powers. Their viewpoint is essentially realist and *souverainist*. In at least five ways, Russia and China have similar attitudes.

First, both view global governance as a Western concept, used by the West to promote the interests of the West. They believe that power matters much more than rules in international relations, and that what rules there are reflect power relationships; the rules serve the interests of the strong. Nevertheless, both take part in international organisations, to protect their interests and to thwart their opponents.

Russians and Chinese – and especially the former – tend to be allergic to the phrase 'the international community' and they have a point. That sloppy phrase, beloved of Western politicians and journalists, implies that there is a disinterested, objective court of opinion-shapers and decision-makers, to define what is right and wrong. The international community really means 'Western governments and the international institutions they lead or in which they are influential'. The West still dominates the international financial institutions (IFIs) and the WTO, and it retains much influence in the UN.

Russia and China believe that the Western media, while often claiming to speak for the international community, propagate a

world-view that is sympathetic to the interests of Western governments. That is why they have set up TV stations to rival CNN, BBC World TV and France 24: Russia Today and the international editions of China Central Television news.

Second, both Russia and China remain strongly committed to the principle of non-interference. It is true that they signed up to ‘the responsibility to protect’ at the United Nations in 2005. That concept means that a government has a responsibility to protect its population from genocide, war crimes, crimes against humanity and ethnic cleansing, and that if it fails to do so, those outside should step in to help, initially diplomatically, but if necessary, and as a last resort, with force.

It is also true that in 2008 Russia cited the responsibility to protect to justify its invasion of Georgia: it said it needed to protect the South Ossetians. In February 2011, Russia and China even voted for UNSC resolution 1970, which invoked the responsibility to protect, imposed sanctions against the Gaddafi regime and asked the International Criminal Court to investigate it. In March 2011, Russia and China abstained on UNSC resolution 1973, authorising ‘all necessary means’ to protect civilians. But when the NATO-led military operation took sides in the Libyan civil war, arguably exceeding the terms of the UNSC resolution, Beijing and Moscow complained loudly. Their hostility to Western-led interventions reinforced, they then blocked UNSC resolutions that sought to criticise the bloody actions of Hafez al-Assad’s regime in Syria.

Russia and China share this antipathy to interventionism with several emerging powers that are democratic, like Brazil, India and South Africa. For such countries, hostility to the US or perceived Western neo-imperialism, combined with a cynical view of Western motivation, often matters more than promoting democracy or establishing global norms of behaviour. The messy consequences of the invasion of Iraq have reinforced this antipathy. Thus in recent

years those countries have, like Russia and China, given diplomatic support to undemocratic regimes in places such as Burma, Iran and Zimbabwe.

Beijing and Moscow are particularly hostile to liberal interventionism because they worry about foreign interference in trouble-spots which are either in their own territory or in which they take a close interest. In 1999, Russia strongly opposed NATO’s bombing of Serbia, a country with which it has strong religious and historic links. And Russia has had concerns about the possibility of Western interference in Chechnya and other parts of the North Caucasus. China worries that the West could try to stop it handling the sensitive issues of Taiwan, Tibet and Xinjiang in the way it wants. When Western governments or organisations express support for human rights in Tibet or Xinjiang, some Chinese analysts appear to believe that their real intention is to promote the break-up of China.

Both Moscow and Beijing complain that Western attempts to intervene or impose sanctions are liable to be arbitrary and unpredictable, based on reasoning and processes from which they are excluded. Some of Beijing’s and Moscow’s dislike of liberal interventionism reflects their fear of US power. Indeed, both countries are inclined to paranoia about the US. The invasions of Afghanistan and Iraq made them fret about what the US might do in their own back yards, if not in their own territory. Both fear encirclement by American-led military alliances, and if you are a Russian or Chinese nationalist and you look at the map of US or NATO military bases in Europe, Central Asia and East Asia, there is plenty to be concerned about. These worries have diminished somewhat since the adventurist President George W Bush left office.

Third, the sort of global governance that Russia and China like the most is concert diplomacy – informal gatherings of great powers that try to sort out problems, on the model of the Congress of

Vienna in 1814. Concert diplomacy has nothing to do with supranationalism, that is to say the cession of sovereignty to international institutions. It gives big powers status, and the opportunity to protect their interests. Both China and Russia take part in the six-party talks on the North Korean and Iranian nuclear problems, as well as the G20. Russia is in the G8 – a body which it wishes to preserve, partly because China is not a member – and the Quartet that tackles the Middle East peace process (the US, the EU and the UN are the other members).

China and especially Russia tend to be dismissive of small countries. One reason why Russians get annoyed with the EU is that a small member-state can block a decision in the Council of Ministers. They do not regard small countries and countries that used to be in the USSR as truly sovereign. This applies even to quite large countries like Ukraine. Prime Minister Vladimir Putin has on a number of occasions said that Ukraine is not a real country.

China is less impolite about its neighbours but expects them to treat it with respect. The mandarins in Beijing have not forgotten the tributary system that their ancestors established. Thus in July 2010, at a meeting of the ASEAN Regional Forum in Hanoi, several South-East Asian leaders complained about China's more assertive approach to territorial disputes in the South China Sea. China's foreign minister, Yang Jiechi, became annoyed and said that some ASEAN countries were being used by the US. He warned them not to collaborate with the US in dealing with the disputes. He said that ASEAN countries should remember how small they were compared with China, to which they owed much of their prosperity. Many large countries believe in de facto spheres of influence in their neighbourhoods, but China and Russia are particularly brazen about it.

Fourth, Russia and China are keen to use regional bodies to strengthen their positions in their neighbourhood and globally. Both are involved in the Shanghai Co-operation Organisation (SCO, the other members being Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan). China

takes part in 'ASEAN + 3'<sup>4</sup>, the ASEAN Regional Forum and the East Asia Summit. Russia has a Customs Union with Belarus and Kazakhstan, and the Collective Security Treaty Organisation (CSTO), whose other members are Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. All these bodies can be described as regional concerts – and Russia and China, because of their size, play a preponderant role in them. SCO, the Customs Union and CSTO are rather more than talking shops, with their own institutions, but the members cede no powers to these.

As far as Russia is concerned, some of this interest in regional governance reflects a negative view of the future of global governance: it is sceptical that international institutions will become stronger. Russia also lacks the self-confidence to believe that it can shape global institutions. But it thinks that its regional clubs can give it more clout globally. It also thinks it can use regional bodies to diminish Western (or Chinese) influence in its neighbourhood, and to strengthen its own. Beijing also uses regional forums to reinforce its hand in its neighbourhood. It has found them particularly useful to cloak its growing power and reassure its neighbours that it will not treat them roughly or aggressively.

Fifth, in both Russia and China there are struggles and arguments between two broad tendencies – one relatively liberal, that is fairly positive about engaging in global institutions; and one more nationalist, that is very suspicious of engagement. In both countries the 'liberals' enjoy some influence on economic policy-making, while the nationalists dominate the government overall, including foreign and defence policy.

In Russia, divisions occasionally spill into the open. Thus Medvedev, who sometimes talks like a liberal, and Putin, who often sides with the nationalists, have clashed over WTO membership and the NATO-led attacks on Libya (Medvedev criticised Putin for talking

<sup>4</sup> *The ten members of ASEAN are Brunei, Burma, Cambodia, Laos, Malaysia, Indonesia, the Philippines, Singapore, Thailand and Vietnam. The extra three are China, Japan and South Korea.*

disdainfully of the NATO operation). In China, the internal arguments are more opaque.

In Russia, the leadership group contains those who are more and those who are less liberal, but they are all part of the same team,

<sup>5</sup> Andrew Monaghan, 'The Russian Vertikal: the tandem, power and the elections', *Chatham House*, June 2011.

supporting the system that runs Russia.<sup>5</sup> In China, too, despite the differences of emphasis, those in the senior leadership are united in their support for one-party rule.

## Differences

For all these similarities, Russia and China have different approaches to global governance. One reason is that their economies are very different: manufactured exports play a big role in China, which therefore benefits from subscribing to international rules that keep markets open. The Russian economy, however, is driven by oil and gas exports, for which there is no international regime. Another reason is the two countries' differing histories. As a rising power, China is unwilling to be constrained by rules that affect armaments or security. Russia, as a country whose power has declined since the days of the Soviet Union, but still possesses a fearsome nuclear arsenal, sees international institutions and security regimes as a means of protecting its status.

So China does not take global governance very seriously on issues of security, but it does engage, when it sees an interest in doing so, on economic subjects. Russia, by contrast, though prepared to sign up to international rules on security, is not active in economic global governance.

This thesis is evidently an over-simplification. China has provided peacekeepers to UN missions in many parts of the world, as well as ships for the anti-piracy operations off the coast of Somalia. And Russia is becoming a little more engaged in global economic forums: at the end of 2011 it joined the World Trade Organisation, which it had been negotiating to do since 1993.

But overall, the people running China are very cautious about committing themselves to international agreements that would constrain their freedom of action on military or security issues. China has never signed a treaty that limits conventional or nuclear weaponry. It shuns the International Criminal Court, the Ottawa Convention on land mines and the Convention on Cluster Munitions – as do Russia and the US. But China has also spurned the Proliferation Security Initiative, which seeks to prevent the illicit transfer of weapons of mass destruction, and the Wassenaar Arrangement, which tries to control exports of both dual use technologies and conventional weapons. Nor is it in the Missile Technology Control Regime, which supervises transfers of missile technology (though China has said that it will follow that regime's provisions and that it would like to join). Russia has joined those three organisations, as has the US. Americans, Europeans and Russians are all concerned about China's relatively lackadaisical approach to nuclear non-proliferation, exemplified by its transfer of militarily-useful nuclear technology to Pakistan.

On economic issues, however, China is increasingly engaged in international institutions. Since joining the WTO in 2001 it has respected the rulings of its dispute settlement body (though China is cavalier about following some WTO rules). China sends excellent officials to organisations such as the Basel Committee on Banking Supervision, the Financial Stability Board, the IMF, the World Bank and the International Accounting Standards Board. Governor Zhou Xiaochuan of the People's Bank of China (the central bank) has published a plan for the reform of the international monetary order, involving the transformation of Special Drawing Rights (SDRs) into a real reserve currency. The Chinese talk positively about the G20, where they enjoy their status as a peer of the US. They use their seat there to block initiatives they dislike, such as attempts to monitor and limit global imbalances.

Since China is a rising power, a fast-growing economy and the world's biggest exporter, its leaders understand that they have global



economic interests, and that global rules help to protect those interests. Thus the WTO is an insurance against the risk of protectionism. However, the WTO is a rare example of China accepting rules that limit its sovereignty. China is not prepared to allow institutions to constrain its freedom of manoeuvre in other areas of economic policy. Hence its reluctance to accept international rules that would limit carbon emissions (though the ambiguous agreement at the end of Durban climate change summit, in December 2011, suggests that Chinese attitudes may be evolving).

Russia is less interested in global economic governance. In contrast to China, it does not have a reputation for sending high quality officials to international economic organisations. And in most of these bodies it is relatively quiet and passive, seldom taking the initiative – though it always has a lot to say when energy is discussed.

The fact that Russia's negotiation to join the WTO lasted 18 years is symptomatic of its suspicion of global economic governance. Some Russians believe that their economy is unique and that it has little to gain from integration with the West. They view the WTO as a Western tool that will encourage foreign investment in Russia and thus enable Western capitalists to steal the country's wealth. These nationalists think that Russia will do just fine as a hydrocarbon superpower, managing its own resources and running an autarkic economy.

Vladimir Yakunin, who is president of the Russian railway company, and close to Putin, presented this view in a letter to *The Economist* in August 2010 (not all of which was published):

What works in the societies of Western Europe does not necessarily fit everywhere else... Our country is an eloquent testament to this view, where attempts to reject all history and tradition, combined with the blind imitation of foreign experience, impeded the country's political and economic development for 20 years.... The societies of the 'developed' world face the tough challenge of either recognising the fact

that such 'state capitalism' simply works better and adapting respectively or...becoming obsolete.

Relatively hard-line figures predominate in the Russian government, but they do not have complete sway over economic policy. Officials such as Arkady Dvorkovich, the president's economic adviser, Igor Shuvalov, a deputy prime minister, and Alexei Kudrin, who was finance minister until September 2011, are open-minded about the merits of international organisations. They won the argument in favour of WTO membership.

Although realists and nationalists dominate Russia's foreign and defence policy, they respect a tradition stretching back to the Cold War of signing up to international agreements on arms control. Russian officials view arms control as a defensive mechanism. Though they do not trust the US, they believe that arms control treaties constrain the Americans' ability to boost the quality and quantity of their weaponry. George W Bush worried the Russians because of his hostility to arms control, and his renunciation of the Anti-Ballistic Missile treaty.

The Moscow security establishment remains more-or-less in favour of arms control and a strong non-proliferation regime. Because Russia has so many nuclear weapons, in any negotiations on strategic forces it will be an important player. Many Russians are also aware that they are, in relative terms, a declining economic power. They think that international agreements on security and weaponry can bolster Russia's position vis-à-vis other, stronger, powers.

If China's security establishment is less willing to accept global rules on security, armaments and proliferation, that may be because it is a rising power. A country that is increasingly confident of its growing strength sees fewer reasons to accept limits on what it can do.

**Table 2: The emerging powers, the US and global governance: participation in selected bodies**

	Brazil	India	South Africa	China	Russia	US
<b>Economic organisations</b>						
Basel Committee	Yes	Yes	Yes	Yes	Yes	Yes
Berne Convention*	Yes	Yes	Yes	Yes	Yes	Yes
Convention on the Non-Navigational Uses of International Watercourses	No	No	Yes	No	No	No
Financial Action Task Force	Yes	Yes	Yes	Yes	Yes	Yes
Financial Stability Board	Yes	Yes	Yes	Yes	Yes	Yes
Global Tax Forum	Yes	Yes	Yes	Yes	Yes	Yes
International Energy Agency	No	No	No	No	No	Yes
International Organisation of Securities Commissions (IOSCO)	Yes	Yes	Yes	Yes	Yes	Yes
Kyoto Protocol	Yes	Yes	Yes	Yes	Yes	No
Major Economies Forum	Yes	Yes	Yes	Yes	Yes	Yes
World Intellectual Property Association	Yes	Yes	Yes	Yes	Yes	Yes
World Trade Organisation	Yes	Yes	Yes	Yes	Yes	Yes
<b>Security organisations</b>						
Australia Group**	No	No	No	No	No	Yes
Budapest Convention on cyber-crime	No	No	Yes	No	No	Yes

	Brazil	India	South Africa	China	Russia	US
Comprehensive Test Ban Treaty (ratification)	Yes	No	Yes	No	Yes	No
Convention on Cluster Munitions***	No	No	No	No	No	No
Convention on the Law of the Sea	Yes	Yes	Yes	Yes	Yes	No
Global Initiative to Combat Nuclear Terrorism	No	Yes	No	Yes	Yes	Yes
International Criminal Court	Yes	No	Yes	No	No	No
Missile Technology Control Regime	Yes	No	Yes	No	Yes	Yes
Nuclear Non-Proliferation Treaty	Yes	No	Yes	Yes	Yes	Yes
Nuclear Suppliers Group	Yes	No	Yes	Yes	Yes	Yes
Ottawa Treaty****	Yes	No	Yes	No	No	No
Proliferation Security Initiative	No	No	No	No	Yes	Yes
Wassenaar Arrangement*****	No	No	Yes	No	Yes	Yes

\* The Berne Convention covers intellectual property.

\*\* The Australia Group is an informal body that seeks to prevent the production and trading of biological and chemical weapons.

\*\*\* South Africa has signed but not ratified. The 68 countries that have ratified include the EU member-states.

\*\*\*\* The Ottawa treaty limits the use of land mines.

\*\*\*\*\* The Wassenaar Arrangement tries to control the export of dual use technologies and conventional weapons.

## 3 Russia

### Russia's diffidence towards global governance

Russian officials and academics who work on foreign policy tend not to focus on multinational institutions. And very few of them talk or write about global governance. Now that experts and officials in other countries discuss it, some Russians are learning to do the same. But their enthusiasm for the subject remains limited.

Alexei Bogaturov, a professor at MGIMO, is a rare Russian academic who works on global governance. He sums up the Russian view:

Putin and Medvedev talk about international law, which Yeltsin never did. But we are realistic enough to believe that international law will only be complementary in world affairs, and that relations among strong powers settle most problems and mobilise resources. Sitting in the G20 is fine, but nobody thinks that key decisions are taken there or that resources will be put at the disposal of global governance. For most states, informal relations are more important than the formal relations of global governance. We are learning to use the system better, and we have lost much though not all of our 1990s inferiority complex. We are now less nervous about China joining international bodies and we no longer think that we have to give in to Western leaders. Those governed have to ensure that global governance does not go contrary to their interests.<sup>6</sup> *Interview with Alexei Bogaturov, June 2010.*

During the debates over the reform of the United Nations, in the closing years of Kofi Annan's second term as secretary-general, Russia remained on the sidelines and had little to contribute. The

Russian involvement in international efforts to tackle climate change has been minimal. Since the global financial crisis struck in 2008, a plethora of international bodies – including the G20, the Financial Stability Board and the Basel Committee – has discussed and decided upon how to improve the regulation of financial markets. Russian officials have participated in these meetings but made little impact.

This chapter examines the reasons for Russia's wariness of global governance. It then looks at Russia's involvement in international economic institutions, security forums and regional bodies. The chapter concludes by arguing that the country's modernisation requires greater engagement in multilateral institutions.

In Russia, as in every country, there are various approaches to foreign policy. At the risk of over-simplification, three schools are discernable. The liberals believe that Russia needs to learn from the West and that its economy would benefit from integration with the West. The liberals are relatively sympathetic to multilateral institutions. But over the past decade most of them have focused on economic rather than political liberalism. In the current Russian government, figures such as Dvorkovich and Shuvalov are relatively liberal.

The realists, a second school, follow the broad approach of Peter the Great. They want to learn from the West and import Western technology and capital, but then prevent Western domination of the international order. They tend to see international institutions as agents of Western interests, but take seriously those in which Russia has or could have a privileged position. Both Putin and Sergei Lavrov, the foreign minister, often take a realist approach to foreign policy.

The nationalists, a third school, are hostile to the US and the EU, seeing them as ideological and strategic opponents. The nationalists take a special interest in protecting the position of Russians living outside Russia. They focus on the military elements of power and

tend to see international institutions as hostile. Dmitri Rogozin, a former ambassador to NATO and currently a deputy prime minister, is one of the more moderate nationalists. Putin himself has sometimes leaned towards nationalism.

Andrew Kuchins, an American analyst, has a thesis on the shifting balance among these schools over the past two decades. From 1993 to 2002, according to Kuchins, the liberals and the realists (that he calls 'great power balancers') dominated foreign policy. Then from 2003 to 2008, realists and nationalists became predominant – partly because of the perceived hostility of George W Bush's America, and partly because of the self-confidence engendered by the economic boom that was fuelled by the high oil price. Since 2008, Kuchins writes, there has been no clear orientation: the financial crisis has made Russia feel vulnerable, Barack Obama's America seems to be less of a threat and Chinese power is more of a worry.<sup>7</sup> During this period, Russian foreign policy has become softer. However, the government's use of anti-Western rhetoric in the winter of 2011-12 – during the Duma elections and street protests against the regime – suggests a revival of nationalism.

<sup>7</sup> Andrew Kuchins and Igor Zevelev, 'Russia's contested national identity and foreign policy', chapter in *the Worldviews of Rising Powers Initiative*, Sigur Center for Asian Studies, George Washington University, forthcoming.

Kuchins' account of the shifting weights of the various schools is plausible. But as he himself acknowledges, the centre of gravity of Russian foreign policy is realist, focused on nation-states and hard power. There are many reasons why Russia is not more enthusiastic about multilateral institutions, based on the country's history, size and perception of its role in the world.

Russian diplomats have a reputation for being tough and unyielding. They are not naturally inclined to look for a compromise or to suggest working out a problem in an international organisation. Of course, the best Russian diplomats are very professional and do work constructively in international bodies. But many are the Russian diplomats who have been nicknamed 'Mr Nyet'.

This hard-nosed style has been reinforced by the widespread view that in the 1990s Russia gave in far too readily to Western pressure in the Balkans and elsewhere. But it has deeper roots: Russia's frontiers have never been clearly defined by natural geography or accepted for long periods by Russia and its neighbours. Its territory has waxed and waned through the centuries. And Russia has usually got on badly with its neighbours. It has mistrusted them – often with reason – which may explain the sense of paranoia that resurfaces every now and then. Even the most liberal and pro-Western of Russian officials have a tendency to blame the country's problems on others. This was evident during the financial crisis that began in 2008: Russians saw themselves as victims of the US-made crisis. Evidently, problems that

<sup>8</sup> See Bobo Lo, 'Russia's crisis – what it means for regime stability and Moscow's relations with the world', CER policy brief, February 2009.

arose in the West did spill over to and harm the Russian economy, but many of the reasons why the Russian economy performed particularly poorly in 2009 – shrinking by more than 8 per cent – were home-made.<sup>8</sup>

The Russian world-view is more focused on power than rules. When a Westerner makes such a statement, a Russian is likely to respond that he or she is guilty of hypocrisy. NATO countries bombed Serbia in 1999 and then invaded Iraq in 2003. These actions had no blessing from the UNSC and were illegal in the eyes not only of most Russians, but also many leading Western international lawyers. There is no doubt that the US and its allies have on occasion applied double standards to the use of international law. But Russia's recognition of the Georgian territories of Abkhazia and South Ossetia, after its war with Georgia, showed Russia applying its own double standards on the sanctity of international frontiers.

Furthermore, at a NATO summit in April 2008, President Putin told President Bush that Ukraine was not a real country. "Ukraine

<sup>9</sup> 'Good and bad news for Putin', *Moscow Times*, April 4<sup>th</sup> 2008.

is not even a state. If it joins NATO, it ceases to exist as a state. Crimea and Eastern Ukraine would secede."<sup>9</sup> Over the past decade Russia

has on several occasions disrupted exports of oil and gas in order to strengthen its hand in diplomatic disputes with neighbours (including Belarus, Latvia, Lithuania and Ukraine), which is arguably illegal and hardly suggests a commitment to rules-based international relations.

Dmitri Trenin, director of the Moscow Carnegie Centre, sums up the Russian view thus: "We think the world is based on power relations and that rules reflect those power relations, <sup>10</sup> *Interview with Dmitri Trenin, November 2010.* either overtly or covertly."<sup>10</sup>

Large countries naturally incline to realism. Weaker and smaller states tend to see the benefits of multilateral institutions. They want those institutions to protect them against bullying or coercion by strong countries. Russian diplomats find the influence that small states can wield in the EU, and in other multinational bodies, infuriating. A few years ago, Lithuania held up the start of talks between Russia and the EU on a new partnership and co-operation agreement; Russian officials said they were dumbfounded that the EU's larger members were prepared to let a tiny state dictate the terms of the Russia-EU relationship. More recently, some Russians fretted that Georgia, as a member of the WTO, might block Russia's accession to that organisation – which it nearly did. Russians respect the sovereignty of great nations but tend to think that small states or those that were once in the Soviet Union – or those that have fallen into the Americans' sphere of influence – are rather less sovereign.

If there is one sort of global governance that Russians warm to, it is clubs in which they hold a privileged position. Russia is one of five permanent members of the UN Security Council. It is the only non-Western country in the G8. In any negotiation on nuclear weapons, Russia matters as much as the US.

Russia views concerts of powers favourably, since they do not limit any country's freedom of action. The famous meeting of Stalin, Roosevelt and Churchill at Yalta in 1945 was the kind of concert

the Russians like. Russia takes part in the six-party talks on the North Korean nuclear problem, the six-party talks on the Iranian nuclear problem, and the Quartet that deals with the Middle East

<sup>11</sup> *The leaders of Brazil, Russia, India and China began to hold summits in 2009. At their third summit, in 2011, South Africa joined the group. So BRIC became BRICS.*

peace process. Russia likes the BRICS grouping (Brazil, Russia, India, China and South Africa), which allows it to associate with rising powers that are challenging Western hegemony, and the occasional triangular summits with French and German leaders.<sup>11</sup>

Sometimes Russia seems to value membership of a club for the kudos that comes with it, rather than because it wants to use its membership to serve particular ends. More than other emerging or re-emerging powers, it is obsessed with “international status and great power standing, as denoted by the word *derzhavnost*, referring to a preoccupation with great power status regardless of whether Russia has

<sup>12</sup> *Deborah Welch Larson and Alexei Shevchenko, ‘Chinese and Russian responses to primacy’, International Security 34, No. 4, Spring 2010.*

the military and economic wherewithal ... Russian elites believe that Russia, in a different category from Central and Eastern European states, should be welcomed into Western institutions without having to meet external conditions.”<sup>12</sup>

Many Russians are aware that, in relative terms, their country’s power is declining. That makes Russia a status quo power in debates on the reform of global governance. It worries that the creation of new organisations or too much reform could reduce its clout. Russia pays lip-service to reform of the UNSC but is happy for that body to remain unreformed, so that it can preserve its privileged status. It wants to maintain the G8, where Russia can sit with the big, developed countries. “No other forum provides such intense and frank discussions”, one Russian minister told a meeting of the Valdai Club (of visiting academics and think-tankers) in September 2010. “The sincerity and trust – and the lack of minutes – is good for discussions on the most difficult problems.” The same minister had told a conference in the previous year that if China was admitted to the G8, the trust would dissipate.

Russia’s insecurity about its place in the world makes it reluctant to engage multilaterally. Russia’s leaders have overcome much of the sense of inferiority that afflicted them in the 1990s, when they were coping with the loss of empire and severe economic decline. Fairly strong economic growth over the past decade – much of it on the back of high oil prices – and firm leadership from Putin have restored some of Russia’s pride. But many of Russia’s leaders know that their economy is declining, at least relative to faster-growing emerging powers such as China. They tend to assume – like China’s leaders – that global governance principally benefits the West and its allies. So while Russia’s leaders want to use their current, privileged position in certain institutions to protect Russian interests, they are not confident that they can shape the evolving multilateral system to Russia’s benefit. They worry that Russia may not be given a sufficiently important place in any new global bodies that emerge. Therefore some Russian leaders have become more interested in regional organisations.

## Economic governance

### *International finance*

It is hardly surprising that the Russians are bashful about economic global governance. The Russian economy is relatively small (just over 2 per cent of global GDP), and more than 60 per cent of its exports are raw materials. That is why – to the chagrin of Russian officials – Russia has never been asked to join the G7 meetings of finance ministers of the leading industrial economies. Its financial markets are not international.

Russia does not regard the G20 as a Western institution and has turned up dutifully since it began to meet at heads of government level in 2008. It speaks out on energy questions and asked for the establishment of a G20 sub-committee on deep-sea drilling, which it now chairs. This committee has produced an inventory of deep-sea drilling regulations and a report on best practice. But Russia is a relatively quiet member of the G20, taking few initiatives. The Americans, the Chinese and the EU countries dominate the G20.

But although Russia is less active than China in global economic governance, it has echoed the Chinese by floating ideas for making the international currency system less dollar-dependent. In April 2009 the Chinese central bank governor suggested that the special

<sup>13</sup> *Each SDR is a basket consisting of dollars, euros, yen and pounds. The SDR is currently an accounting unit more than a real currency.*

drawing rights (SDRs) issued by the IMF could be transformed into a “super-sovereign reserve currency”.<sup>13</sup> The Chinese suggested broadening the SDR basket to include other currencies such as the renminbi.

In the same month Medvedev called for the SDR to become a “supranational reserve currency” and for countries to diversify their foreign exchange reserves away from the dollar. Then at a meeting of BRIC countries in June 2009, Dvorkovich, who is Medvedev’s economic adviser and sherpa in the G8 and G20, said that the rouble, the renminbi and gold should be included in the SDR. He also suggested that all the BRIC countries – worried about the declining value of their dollar holdings – should buy each other’s bonds.

Unlike the renminbi, the rouble is convertible and so could plausibly be added to the SDR. Nevertheless, Russian ideas for reforming the SDR have not been taken very seriously outside Russia. The rouble is not a widely used international currency. Many analysts – including in Russia – regard the Russian initiative mainly as a politically-driven attempt to undermine the dollar, a pillar of US power. French interest in reform of the international monetary system may be driven by similar motivations.

In some economic forums, Russian representatives are taken seriously. The long-standing Russian representative at the IMF, Aleksei Mozhin, co-ordinates the positions of the BRICS countries, which means that Russia is seldom outvoted. Dvorkovich and Shuvalov are respected figures. So was Kudrin – who had a good relationship with Robert Zoellick, the World Bank president – and German Gref, who was Russia’s minister of economics and trade from 2000 to 2007.

But the overall quality of Russian officials in international economic forums leaves something to be desired. At the World Bank, for example, China and India systematically send bright officials, rotating them frequently. Russia’s ministries have fewer direct channels to the Bank and when its officials arrive in Washington they tend to remain for a long time.

Quite often, Russia does not seem to know what it wants at the World Bank or the IMF. For example in July 2011, when Dominique Strauss-Kahn resigned as IMF managing director, Russia – like the other BRICS – decided not to back the only serious contender from an emerging power, Mexico’s Agustin Carstens. Instead Russia thought regionally and supported the Kazakh central bank governor, who had no other backers.

No Russian has been asked to join the Group of Thirty, an informal club led by Jean-Claude Trichet and Jacob Frenkel, two former central bank governors. The point of the club is to promote free and frank discussions on financial regulation among past and present central bank governors, regulators and economists. China’s central bank governor is a member, as are figures from Brazil, Mexico and Argentina. India, like Russia, is not represented in this forum.

### *The WTO*

According to World Bank economists, Russian membership of the WTO will boost its economic growth by 1 per cent a year. Why, then, has it taken Russia 18 years to negotiate entry?

Most countries want to be in the WTO for one of four reasons. The first is to gain secure access to other countries’ markets: WTO membership ensures that exporters face low tariffs, makes it harder for another country to impose anti-dumping duties and provides a dispute settlement mechanism. More than half Russia’s exports are raw materials and hydrocarbons, which are not covered by WTO rules. However, Russian companies that export chemicals and steel will benefit. The second reason is to encourage foreign direct

investment (FDI), since potential investors see WTO rules as a form of insurance against bad behaviour by the host government. However, some Russians, particularly in the security establishment, see FDI as a kind of neo-colonialism that leaches wealth out of the country and should be discouraged. The third reason is that WTO rules, including lower tariffs, provide an external discipline that encourages more competition and the development of a market economy. Russia's average tariffs will fall from 14 per cent to 8 per cent. But the Russians who are wary of FDI also tend to want to protect native industries (such as cars and agriculture) from foreign competition. The fourth reason, which seems to have less force in Russia than in many other countries, is prestige: every other leading economy is in the organisation, shaping the rules of the world trading system.

China joined the WTO in 2001 for all these reasons. The Medvedev camp, and the economic liberals in the Russian government, wanted to join the WTO mainly for reasons two and three. WTO membership is one of the few subjects on which Medvedev and Putin have clashed in public. Putin was ambiguous on the WTO. His decision early in 2011 to raise tariffs on imported car parts made accession more difficult, but in the end he allowed it to happen.

Other WTO members worried about Russia joining; they feared that a nationalistic government could behave obstructively and abuse the rules once inside. That is why the various countries negotiating with Russia tried to pin it down on contentious issues in detail, before it joined. This contributed to the length of the negotiations.

One reason for Russia being less engaged than China in global economic governance is that it has fewer global economic interests. According to Konstantin Kosachev, until recently chairman of the Duma foreign affairs committee:

Traditionally, we concentrate more on security problems than economic ones. Most countries are driven by the need for natural resources and markets. But neither factor applies to

Russia, since we are self-sufficient in raw materials and we don't make many products that need foreign markets. Our economy doesn't need multilateral arrangements. So there are no driving economic forces behind our foreign policy. We concentrate on security issues as that is where we can be a great power.<sup>14</sup>

*Interview with Konstantin Kosachev, July 2011.*

A second reason is that China's leaders know what kind of economy they want: a diversified economy with companies that produce high-value added goods and that will invest overseas. Russia's leaders do not agree on the kind of economy they want, and in any case have to cope with many powerful vested interests that oppose modernisation.

### *Climate change*

Russia emits 7 per cent of the world's greenhouse gases, more than any country except for China, the US and India. According to a Russian government agency, Rosgidromet, temperatures are rising significantly faster in Russia than in other parts of the world. But Russia has been diffident about international climate negotiations.

Russia is also the least efficient consumer of energy, among the world's largest ten economies. Russia consumes twice as much energy per unit of GDP as the US, though the Americans are hardly paragons of virtue. That spendthrift attitude partly stems from natural endowments: Russia has the world's largest gas reserves, second largest coal reserves and eighth largest oil reserves.

Then-President Putin echoed the views of many of his countrymen when he said in 2003: "For a northern country like Russia, it won't be that bad if it gets two or three degrees warmer...we would spend less on fur coats...our grain production would rise." Although experts disagree on the impact of global warming on Russia's grain production, there is no doubt that it is bringing real benefits. For example, ships can travel more easily in Arctic waters. But global warming also brings serious costs for Russia. Melting permafrost in



Siberia damages the foundations of buildings, roads and pipelines. This problem is already causing significant structural damage, including to oil and gas installations. However, opinion polls suggest that only 40 per cent of Russians think climate change is a serious issue. The tragic peat bog fires in the Moscow region in August 2010 do not seem to have made Russians much more concerned about global warming.

In 2005, Putin agreed to ratify the Kyoto protocol, thereby allowing it to enter into force (that could happen only when 55 per cent of governments, representing 55 per cent of global emissions, had ratified the protocol – and Russia made the difference for the second criterion). The Kyoto protocol required no action from Russia, which merely had to promise not to exceed its 1990 level of emissions. In 2010 Russian emissions were still 40 per cent below 1990 levels, because of the collapse of heavy industry in the 1990s. Russia's leaders ratified the protocol as part of a bargain with the EU, which agreed to make concessions in Russia's negotiation for WTO membership. They also gained the opportunity to convert unused carbon credits – accruing to Russia because of the drop in its emissions – into billions of dollars.

In meetings of both the UN Framework Convention on Climate Change, and the Major Economies Forum (a grouping of large countries that discusses how new technology can curb carbon emissions), Russian delegates say little and do not take initiatives. However, just before the Copenhagen climate change conference in November 2009, Russia took some small steps that Western countries regarded as positive. Medvedev unveiled the 'Russia climate doctrine', a document acknowledging the harmful effects of climate change, stating the need to take into account the climate-related consequences of actions in other policy areas, and outlining measures for adaptation and mitigation. This document showed that some people in the Russian government cared about the problem. But there was no follow-up with a detailed programme to explain how the doctrine's objectives would be implemented.

In Copenhagen, Russia was in an awkward position. China worked closely with BASIC (an informal group of Brazil, South Africa, India and China), rather than Russia. But Russia agreed to put money into the Green Climate Fund, which will pay for mitigation and adaptation in the poorest countries. Then in February 2010 Russia committed to reducing its emissions by 15-25 per cent, by 2020 (compared with their 1990 level) – on condition that its forest sinks, which absorb CO<sub>2</sub>, are taken into account. In practice that commitment requires Russia to make no effort to curb emissions or use energy more efficiently. At the same time Medvedev promised a 40 per cent decline in energy intensity (energy expended per unit of GDP) by 2020, which implies a bigger cut in emissions than Russia has committed to in international negotiations. Also in February 2010, Medvedev made a speech that an American expert on Russia summarised thus:

Medvedev asserted that climate change is real, that global warming threatens Russia's future, that Russia has a responsibility to address it both domestically and in international forums, that doing so can be economically beneficial, and that old policy-making patterns – a regulation-first approach to the economy and paper-tiger framework documents that become irrelevant soon after they are released – need to change if any progress is to be made. The speech is striking both because it is essentially the first time a Russian leader has made this argument coherently and because it is totally divorced from the reality of Russia's current approach to climate change, which can be characterised as lacklustre.<sup>15</sup>

<sup>15</sup> Sam Charap, 'Russia's lacklustre record on climate change', *Centre for American Progress*, May 2010. This section draws on Charap's work.

At the end of 2010, Russia promised to spend over €200 billion on energy efficiency over the current decade. And in May 2011 the Duma adopted a law that includes tax incentives for investment in energy efficient equipment. Seven EU countries have now opened energy saving centres in Russia.

Meanwhile in the international negotiations Russia has cut a rather lonely path: in the run-up to the December 2011 Durban climate change conference, the BASIC countries argued for the prolongation of the Kyoto protocol beyond its expiry date at the end of 2012; they like the protocol, since it does not oblige them to cut emissions. Russia, like Canada and Japan, opposed the protocol's prolongation, on the grounds that neither the US nor developing countries were constrained by it. The Durban meeting agreed to extend the life of the protocol, but Canada pulled out of it, winning praise from Russia for doing so. Russia chose to stay in, presumably because it likes the financial benefits of selling emissions permits to other countries.

## Security governance

### *Arms control and proliferation*

Russia's greater enthusiasm for forums that deal with international security is not surprising; as one of the world's top two nuclear powers, it can expect to play a leading role in such bodies. Russia takes the nuclear non-proliferation regime fairly seriously and has worked with the Americans to take loose nuclear materials out of circulation. In 2006, Putin and George W Bush launched the Global Initiative to Combat Nuclear Terrorism, which now includes 82 countries. This initiative attempts to deal with problems like the trafficking of nuclear materials and the risk of terrorists obtaining them, through conferences and the exchange of best practice.

In April 2011, after the Fukushima nuclear accident, Medvedev proposed that the G8 should take the lead in establishing new international rules on the safety of civil nuclear power plants. The International Atomic Energy Agency, which tries to ensure that nuclear materials and technologies are not diverted for military purposes, already asks its members to accept non-binding standards on safety. The Russian initiative would make these standards binding.

Russia is not always a model member of non-proliferation regimes. In the past, some of its companies assisted countries trying to develop nuclear capabilities, including Iran, and its institutes trained scientists from those countries. Russia has dragged its heels over supporting international action to confront the North Korean and Iranian nuclear programmes. But over the last couple of years Russia has taken a tougher line than China over the Iranian nuclear programme – partly because of its 'reset' with the US, and partly because it is genuinely worried about the risk of an Iranian bomb. Russia remains reluctant to sign up to ever-stronger UNSC sanctions against Iran, not because it is soft on non-proliferation but because it doubts their effectiveness and thinks that sanctions could strengthen the hand of hard-liners within Iran.

Russia is committed to the treaties covering chemical and biological weapons. It has joined the Proliferation Security Initiative, a US-led group that attempts to thwart the trade of weapons of mass destruction. It has ratified the Comprehensive Test Ban Treaty, unlike China and the US. It is a member of the Missile Technology Control Regime, unlike China. It respects the Treaty on Open Skies, which allows NATO countries and former Soviet states to carry out aerial reconnaissance over each other's territory.

The Russians know that they are militarily much weaker than the US, which is why they have traditionally favoured arms control treaties with it. The most recent US-Russia treaty is the New Start agreement that came into force in February 2011 and limits the two countries' strategic nuclear forces. However, Russian support for arms control is not unconditional. Putin pulled out of the Conventional Forces in Europe (CFE) treaty in June 2007 – on the grounds that NATO members had failed to ratify a post-Cold War version of that document, known as the adapted treaty. But they did not ratify it because Russia had reneged on promises to pull its armed forces out of Georgia and Moldova. In 2011 Medvedev threatened to pull out of the New Start treaty, unless the US modified its plans for missile defence.

Russia's critics suggest that its apparent commitment to arms control is a hangover from the Cold War, and that its military establishment has little desire to sign up to further reductions in its weaponry. It is true that Russia is reluctant to negotiate on tactical nuclear weapons in Europe, perhaps because it would have little to gain. The US has about 200 in Europe, and Russia is thought to possess at least ten times that number; the Russians may think that one day they could need them against China.

However, Russian officials say they would be willing to engage in another round of talks on cutting strategic nuclear missiles – on certain conditions. The US would have to agree to a new CFE treaty and to a treaty limiting weapons in outer space (the US has rejected this idea, though both China and Russia say they want such a treaty). And, most important of all, the US would have to accept limits on both its missile defence systems and on conventional submarine-launched cruise missiles.

A security issue of rising concern to many powers is cyber-warfare. There are no international rules in this area. Many Western governments say that Russia is the second biggest source of cyber-attacks (and that China is the worst offender). Russia has been accused of disrupting the computer networks of Estonia in April 2007 and of Georgia in August 2008.

The US and Russia have disagreed over how to counter the threat of cyber-attacks. Russia favours an international treaty along the lines of that negotiated for chemical weapons. The US has argued that a treaty is unnecessary, instead advocating improved co-operation among

<sup>16</sup> Andrew Kramer and John Markoff, 'US and Russia differ on a treaty for cyber-space', *New York Times*, June 27<sup>th</sup> 2009.

international law enforcement agencies. If these groups worked together to make cyber-space more secure against criminal intrusions, the Americans say, cyber-space would also be more secure against military campaigns.<sup>16</sup>

Russia's proposed treaty would ban a country from secretly embedding malicious codes or circuitry that could later be activated

from afar in the event of war. The Russians also want to ban both attacks on non-combatants and deceptive operations in cyber-space (to deal with the challenge of anonymous attacks). More broadly, the Russians have also called for international oversight of the internet by governments.

American officials resist any sort of internet governance that could allow states to censor it. They also think the proposed treaty would be ineffective, since it could be almost impossible to determine whether an internet attack originated from a government, a hacker loyal to that government, or a rogue acting independently.

State Department officials hold out as a model the Council of Europe Convention on Cybercrime, which took effect in 2004 and by the end of 2010 had been signed by 46 nations, including countries not in the Council of Europe such as the US and South Africa – but not Russia or China. Russia objects that this 'Budapest Convention' allows police to investigate a suspected online crime in a particular country without first informing its authorities. But despite these differences, Washington has decided to back a Russian initiative for a UN panel to work on cyber-arms limitations. The panel is due to convene in 2012.<sup>17</sup>

<sup>17</sup> *Financial Times*, 'Rules of engagement for cyber-wars see slow progress', December 29<sup>th</sup> 2010.

Some of the Russians who think about security global governance argue that even in this area, Russian interest is limited. "Global issues like climate change, migration and organised crime are of almost no significance to Russian elites, even though in practice Russia is vulnerable to some of these problems," says Dmitri Suslov, from the Council on Foreign and Defence Policy in Moscow. "Many people think the West should pay us to get involved in managing these issues. Russia is not even very serious about proliferation. The Russian elite is convinced that our nuclear assets will save us from the risks of proliferation."<sup>18</sup>

<sup>18</sup> *Interview with Dmitri Suslov*, September 2010.

### *Russia and the UN*

Russians are enthusiastic for any sort of international law that protects state sovereignty from outside intervention, such as the UN Charter. One reason is that they worry that the US could intervene in parts of the world that matter to Russia; another is that at least some Russians are aware of their own relative weakness. Russia has used its privileged position at the United Nations to protect its interests, though it has not been a great builder of coalitions in pursuit of particular goals.

In 2007 Russian diplomats worked hard to prevent the UNSC from supporting the plan drawn up by Martti Ahtisaari that laid the foundations for Kosovo's independence from Serbia. The Russians wanted to maintain their historic ties with the Serbs and did not want to see NATO's bombing of Serbia in 1999 leading to borders being redrawn. But in 2008, Russia undermined its case on Kosovo: after its military intervention in Georgia it recognised the independence of Abkhazia and South Ossetia (much to the annoyance of China and the states of the former Soviet Union, none of which have recognised the territories). Then in 2009 Russia used its position in the UNSC to block the renewal of the mandate for UN observers in Abkhazia, and they had to leave that territory.

The case of Ivory Coast shows that sometimes Russia is even keener than China to defend the principle of non-interference. In December 2010 the incumbent Laurent Gbagbo lost the presidential election but refused to step down. Russia has oil interests in Ivory Coast. In the UNSC, for the first three months of 2011, Russia and South Africa – a temporary member – blocked any criticism of Gbagbo. China, following the African Union line, was willing to criticise Gbagbo. Then in April, when Gbagbo's men started firing on UN peacekeepers, Russia and South Africa changed tack. All 15 members of the UNSC backed resolution 1375, which allowed UN helicopters to attack Gbagbo's heavy weapons and precipitated his fall.

Many Russians are convinced that the Western penchant for intervention often undermines the authority of UNSC, and that they are the true defenders of international law. They point not only to the Kosovo air campaign and the invasion of Iraq in 2003 (both carried out without UNSC authorisation) but also to recent UNSC resolutions. The last resolution passed against Iran, in June 2010, was supported by Russia (and China) and imposed sanctions. However, no sooner was it passed than the US introduced much tougher sanctions of its own. It had deliberately kept quiet about these in order not to deter the Russians from supporting the UNSC resolution. But the tougher sanctions, targeting companies that do business in Iran, damaged Russian business interests. One senior American official has speculated that the sanctions may cost Russia up to \$15 billion of prospective business in Iran.

The Russians were even more annoyed about resolution 1973 on Libya. Medvedev had stuck his neck out in pushing Russia to abstain on the resolution; most other senior figures in the Russian leadership wanted to wield a veto. But then the Western powers pushed the mandate of that resolution – the protection of civilians – to the limit and, arguably, beyond. Even Medvedev joined other Russians in complaining that UNSCR1973 was being used to authorise military attacks against one side in a civil war. The Russians were also annoyed that Western countries did not consult them on their operations over Libya.

The bombing of Libya strengthened Russia's opposition to any UNSC criticism of Syria. In November 2011, when the Arab League suspended Syria and threatened sanctions, China became more critical of the Assad regime. Russia did not and sent its aircraft carrier to Tarsus, its naval base in Syria, to show support for Assad. Then in February 2012, when 13 UNSC members backed a resolution supporting the Arab League peace plan for Syria, Russia and China wielded vetoes.

In other parts of the United Nations, the Russians often work with developing countries and other emerging powers to thwart the

West's efforts to promote human rights. In 2007, together with Muslim countries on the Human Rights Council, Russia (and China) sought to prevent it reporting on the human rights records of particular countries. They failed on the general principle but succeeded in scrapping the council's regular reports on Belarus and Cuba. In 2009, during the final phases of the Sri Lankan civil war, Russia, India and China blocked a UNSC statement that would have called on the government of Sri Lanka to allow humanitarian aid into the Tamil areas. Russia then sponsored a successful motion in the Human Rights Council that congratulated Mahinda Rajapaksa's government on its military victory.

Russia and its allies are also influential in the UN General Assembly. According to an analysis of voting patterns in the assembly, the percentage of motions on human rights issues on which Russia was on the winning side stayed constant at about 60 per cent from the 1997/98 session to the 2010/11 session; the EU's success rate (on votes when the member-states had a united position) fell from 70 per cent to about 45 per cent over the same period; and China's score

<sup>19</sup> Richard Gowan and Franziska Brantner, 'A global force for human rights? An audit of European power at the UN', *ECFR*, 2008; and, by same authors, 'The EU and human rights at the UN', *ECFR*, September 2011.

rose from 40 per cent to 60 per cent.<sup>19</sup> One example of the EU being outvoted came in 2009, when the Iranian government suppressed opposition to the rigging of presidential elections. Only 56 out of 192 members of the General Assembly supported a Western motion that sought to criticise Iran.

Unlike China, Russia avoids getting involved in UN peacekeeping. This may be because Russia's armed forces remain focused on its neighbourhood. Furthermore, these forces have been badly-equipped, short of money and ill-prepared to travel large distances (though over the past couple of years there have been serious military reforms and large budget increases). The People's Liberation Army is also focused on its neighbourhood, but China's leaders recognise that as a power with increasingly global interests, it needs to be seen to do its bit for international security.

Russia did send peacekeepers to Bosnia in 1996 and to Kosovo in 1999, to work alongside those from NATO. But in recent years the only Russian 'peacekeepers' have been troops safeguarding Russia's interests in parts of its neighbourhood, such as South Ossetia (before the Russian invasion) and Transnistria. One thing Russia has done for the UN is provide helicopters to support missions in Sudan and Afghanistan.

## Regional governance

Russia is increasingly interested in regional organisations, in which, because of its size, it inevitably plays a leading role. The most important are the Customs Union with Belarus and Kazakhstan, the Collective Security Treaty Organisation (CSTO) and the Shanghai Co-operation Organisation (SCO). Some Russian leaders think that Russia can boost its weight at the global level by working through the regional bodies that it leads. These bodies can also help Russia to maintain its influence in its neighbourhood.

The introduction to this report suggested that in the emerging multipolar order, multilateral institutions may be hard-pressed to constrain the actions of powerful states. Very few people expect the emergence of strong, new, global supranational institutions. Some Russian leaders have a particularly jaundiced view of multilateral bodies: they see them as driven by Americans and Europeans, yet the US is in economic decline while the EU is in a ghastly mess. In a multipolar world, according to many Russians, regional bodies may become more solid, real and relevant. "Regional institutions will play a bigger and bigger role, for example in protecting us from crises," a Russian minister told the Valdai Club in September 2010. "But that does not mean we are less interested in global multilateral institutions."

Russia has fewer global interests than it did in the days of the Soviet Union. For example, it is no longer much of a player in Africa, Latin America or the Middle East. "The front line of Russian interests is

shorter than it was in the USSR, and Russians don't care a lot about the far side of the line," says Dmitri Trenin. "The purpose of

<sup>20</sup> *Interview with Dmitri Trenin, November 2010.* regional bodies is to protect Russian interests in regions that we care about."<sup>20</sup>

Many Russians agreed with President Medvedev when he said, in September 2008, that Russia's foreign policy should pay special attention to the regions in which it had "privileged interests". He talked of protecting the lives and dignity of Russians in the neighbourhood. But these days few Russians aspire to maintain the area covered by the Commonwealth of Independent States (CIS, the successor body to the Soviet Union) as their exclusive preserve. They no longer want to pay for their neighbours' loyalty by giving them lots of financial support, as they did in Soviet times. They accept that the Chinese and the Americans have some influence in parts of Central Asia and the South Caucasus, alongside the Russians. The Eastern European trio of Belarus, Moldova and Ukraine are perhaps the only CIS states in which Russia still seeks a dominant position.

<sup>21</sup> *Russia is also part of the inter-governmental bodies that promote co-operation on the Arctic, Baltic, Black and Caspian Seas. Moscow does not control any of these bodies.*

The regional bodies that Russia most values are not multilateral in the sense that the members have to respect decisions taken by central institutions. They are mini-concerts of powers, in which big countries count for more than small ones.<sup>21</sup>

### ***The Customs Union***

Founded in 2000, the Eurasian Economic Community (EurAsEC) brings together Russia and five former Soviet states – Belarus, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. The six members apply visa-free travel between each other and are committed to building a 'common economic space'.

The Customs Union, which brings 35 million Belarusians and Kazakhs into the Russian market, is a subset of EurAsEC. The

Customs Union formally took effect in July 2010, leading to common external tariffs, the harmonisation of customs rules, the sharing of customs revenues and the scrapping of customs controls and duties between the members.

Phase two of the Customs Union, the establishment of a common economic space, including the free movement of capital, labour and services, is supposed to start in 2012. This will be run by a commission, loosely modelled on the European Commission, to be based in Moscow. Russian officials say that the common economic space will be based on EU technical standards, enabling the Customs Union and the EU to negotiate a free trade agreement establishing a single economic zone that runs from the Atlantic to the Pacific. The EU has long promised Russia that once it is in the WTO, a free trade agreement can be negotiated. However, EU officials think that it may be difficult to mesh the European single market with a Russian-led economic space.

Putin has spoken of a 'Eurasian economic union' as the final phase of the Customs Union, perhaps involving a single currency based on the rouble. Kyrgyzstan and Tajikistan are interested in joining the Customs Union. Putin has often said that he wants Ukraine to join. However, that would be incompatible with the 'deep and comprehensive free trade agreement' that Ukraine has negotiated with the EU. For the time being Ukraine's elite seems keener to tie itself to the EU's single market than to the Customs Union. However, Russian leaders have threatened Ukraine with higher tariffs and energy prices if it implements the free trade agreement with the EU.

Russian officials and politicians are proud of the fact that the Customs Union works. They say it is delivering real economic benefits. They also see it as a means of countering Chinese influence in Kazakhstan. Kazakh officials also speak positively of the Customs Union, pointing to foreign firms that have invested in Kazakhstan in order to gain access to the Russian market. Belarus, however, is reluctant to give Russian firms the freedom to invest in its market.

EurAsEC itself does rather little. But, after the financial crisis struck, Russia led the organisation into establishing a special fund to help members in need. In June 2011 EurAsEC finance ministers agreed to offer Belarus – suffering from a shortage of foreign exchange – a \$3 billion loan. Russia insisted that the loan be conditional: Belarus would have to agree to privatise state enterprises, which would give Russian firms the chance to buy them. By the autumn only a small portion of the loan had been dispersed, because Belarus had not satisfied the conditions. Then in November Belarus announced that it would sell 100 per cent of Beltransgas, its pipeline operator, to Gazprom.

### *The Collective Security Treaty Organisation*

Russia could find CSTO a very useful body. When the CIS emerged from the ruins of the Soviet Union, CSTO became its security arm. The CIS now does virtually nothing but CSTO has a secretariat and a secretary-general in Moscow, regular meetings of ministers and officials, a rapid reaction force (RRF) that has not yet been used, and a common air defence system. CSTO governments have combined to run some effective counter-narcotics operations. For the time being, however, the organisation remains little more than a framework within which its members may choose to co-operate.

The RRF consists of national units assigned to CSTO rather than a multinational force, but these units take part in joint exercises. Uzbekistan has opted out of the military side of CSTO, while Belarus says its soldiers will not fight outside its borders. The point of the RRF is to defend CSTO members from outside attack. They do not want it to tackle internal unrest. Indeed, after the Russia-Georgia war, the Central Asian members became especially wary of Russian soldiers intervening in CSTO countries.

So when Kyrgyzstan began to fall apart in 2010, and its new (pro-Russian) government asked for CSTO troops to restore order, Kazakhstan and Uzbekistan opposed the organisation's involvement.

Russia might have been willing to intervene under CSTO's umbrella, but did not want to do so alone. The episode shows that CSTO is still searching for relevance.

Some of Russia's leading strategic thinkers, such as Trenin and Fyodor Lukyanov (the editor of *Russia in Global Affairs*), would welcome a greater role for CSTO. Given the instability that besets much of Central Asia, and the dangers of Islamist extremism spreading from Afghanistan, a security organisation that kept the peace in the region could be of real value. From Russia's point of view, such a CSTO could allow it to project power in a relatively non-threatening way, and it would help to curb Chinese influence in Central Asia; from the point of view of the Central Asians, it would counterbalance China's growing economic domination of the region.

Were the Taliban to take over Afghanistan, CSTO's members might want to build it into a serious body for fighting Islamist militancy. But for the time being the political will is lacking. Russian leaders like the symbolism of CSTO, which shows that Russia is the leading player in Central Asian security. But they seem unwilling to put much effort into strengthening the organisation. They prefer to deal with the other governments in the region mainly through bilateral channels.

### *The Shanghai Co-operation Organisation*

The SCO is dominated by Russia and China. It first met in 1996 as the Shanghai Five, and took on its current form in 2001, when Tajikistan joined China, Kazakhstan, Kyrgyzstan, Russia and Uzbekistan. India, Iran, Mongolia and Pakistan are observers. The SCO's main task has been to reduce the potential for Sino-Russian conflict in Central Asia.

China has always favoured building up the economic side of SCO. Russia has been reluctant to let that happen, because of China's greater economic clout. Conversely, Russia has been keener than

China on the idea of boosting SCO's role in security. China has been wary of that, given Russia's military superiority (though that superiority may now be open to question). In the past few years, as China's influence in Central Asia has grown, Russia has become less interested than China in SCO.

The SCO has a secretariat in Beijing, a presidency that rotates from member to member and annual leaders' summits. The 2005 summit issued a declaration calling for Western forces involved in the Afghan war to remove their troops from Central Asia – and that

<sup>22</sup> Oksana Antonenko, 'The EU should not ignore the Shanghai Co-operation Organisation', CER policy brief, May 2007. upset Washington. There is an SCO counter-terrorism unit in Uzbekistan, but that is more concerned with exchanging information than running operations.<sup>22</sup>

On several occasions SCO has organised joint military exercises among its members – but these seem to be of symbolic value, rather than a serious rehearsal for joint operations. Economically, SCO provides a framework in which bilateral deals – many of which involve Russia and China investing in or aiding their poorer neighbours – can be brokered. There has been no attempt at a common market or customs union. The organisation's potential for integration is weakened by the poor relations among some members (such as Kazakhstan and Uzbekistan), as is the case with CSTO.

Russia's leaders see that power and influence are drifting towards the Pacific rim. They want to modernise the Russian economy by linking it to those of the emerging Asian countries. So far this has led to more words than actions, but Russia has begun joining many of Asia's diplomatic forums. Thus it has started to attend the East Asia Summit, the ASEAN Regional Forum (which discusses security) and Asia Pacific Economic Co-operation (which brings together leaders from around the Pacific Ocean). The Asians are happy to include the Russians. They do not fear Russia or take it very seriously as an economic power.

### *European regional integration*

Despite all these organisations that involve Russia in Asian affairs, the regional bodies that matter most for Russian leaders are the EU and NATO. There is no prospect of Russia joining either. The EU's eastward enlargement has made Russians somewhat suspicious of it. So has its 'eastern partnership', intended to tighten the EU's ties with Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. NATO is still regarded as a hostile organisation, because it is dominated by the US, which many Russians believe is intent on weakening Russia; and because some Americans (and Central Europeans) still want to push for Ukraine and Georgia to join NATO. The Russians' dislike of these Western clubs has made some of them view CSTO, SCO and the Customs Union – as well as the putative Eurasian Union – as necessary counterweights.

The one security club that unites the countries in NATO and the EU with Russia and its neighbours is the Organisation for Security and Co-operation in Europe (OSCE). But the Russians are fed up with this 56-country body. Its election monitoring arm has upset them by reporting on elections in countries like Belarus and Ukraine in ways they dislike. Even more annoyingly, the OSCE criticised Russia's own parliamentary elections in December 2011. The Russians think the OSCE is too heavily influenced by the West and that it is incapable of doing anything useful to promote European security. The November 2010 summit of OSCE heads of government in Almaty – the first for ten years – agreed on little of significance, and President Medvedev left as soon as he had delivered his speech.

Shortly before the Russia-Georgia war, Russian leaders started to think that Europe needed a new security organisation that included their own country. They believed they had a strong case for persuading Western leaders to agree to set up something new: if the current security architecture made Russia feel uncomfortable, it might behave unpredictably, whereas new arrangements would increase its willingness to resolve frozen conflicts and other crises.



In June 2008, President Dmitri Medvedev proposed ‘a new European security architecture’, and he developed the concept in

<sup>23</sup> Bobo Lo, ‘Medvedev and the new European security architecture’, *CER policy brief*, July 2009. various speeches over the following 18 months.<sup>23</sup> He called for a new treaty to be signed by the countries of Europe and North America, and the European security

organisations. He emphasised that all European countries should enjoy the same level of security; that meant, he said, that no military alliance should do anything that threatened any country’s security. One specific idea he put forward, that Russia should gain a *droit de regard* over what happened in its neighbourhood, proved unacceptable to many members of the Atlantic alliance. So did the idea of a new international security treaty. The OSCE took on the task of considering the initiative, through the ‘Corfu process’, but there is no longer any momentum behind a new European security architecture.

One element driving some Russian thinking on regional integration is the fear that Russia could become an economic subsidiary of China. In 2010, the Valdai Club published a report proposing a new ‘Alliance of Europe’, linking Russia and the EU. This alliance would be built on a marriage of European technology and Russian natural resources, in order to prevent the establishment of a G2 world run by the US and China. The report proposed a new treaty and joint institutions, covering economics

<sup>24</sup> Sergei Karaganov and others, ‘Towards an Alliance of Europe’, *Valdai Discussion Club*, October 2010.

and energy as well as foreign and security policy.<sup>24</sup> Many of the ideas in this report are valuable. But so long as Russia has a political system that seems alien to many Europeans, most EU countries would rather retain the Atlantic alliance.

The Russian desire to redraw the shape of Europe’s institutions will remain. Russia’s best bet for modifying Europe’s security architecture is probably to find ways of working more closely with NATO and the EU, rather than creating new institutions. In that

spirit, a paper by Oksana Antonenko and Igor Yurgens proposed much closer ties between Russia and NATO.<sup>25</sup> The ideas in that paper may have helped to create a positive climate for the NATO summit in Lisbon in November 2010, at which Medvedev and NATO leaders agreed to try and breathe new life into the NATO-Russia Council.

<sup>25</sup> Oksana Antonenko and Igor Yurgens, ‘Towards a NATO-Russia strategic concept: Ending Cold War legacies, facing new threats together’, *Institute for Contemporary Development and the International Institute for Strategic Studies*, November 2010.

Meanwhile Sergei Lavrov has pursued an idea discussed by Medvedev and Angela Merkel, the German chancellor, for a new committee – consisting of Russian and EU representatives – that would discuss frozen conflicts and common security concerns. But Merkel has emphasised that her support for such a committee is conditional on Russia helping to resolve the Transnistria conflict. That conflict remains unresolved and the committee remains a mere idea.

Russia is suspicious of any sort of regional integration that could give Western companies specific rights to operate in its own territory. Russia signed the Energy Charter Treaty in 2004, alongside 50 other European and Asian states (China is an observer but not a signatory). The point of the treaty is to encourage investment in energy by establishing rules that create a climate of predictability. The treaty would protect foreign investors from non-commercial risks such as discriminatory behaviour, breach of contract and expropriation. It also seeks to ensure stable flows along transit routes – though it does not oblige signatories to give third parties access to pipelines. A separate transit protocol to the Energy Charter Treaty could create that obligation. But long negotiations between Russia and European governments over the protocol failed to bridge their differences: Russia is unwilling to grant such access to its pipelines.

Although Russia never ratified the treaty, its signature obliged it to apply many of the articles provisionally. That is why there have

been court cases against the Russian government over its expropriation of the assets that belonged to Yukos, the oil company once run by Mikhail Khodorkovsky. Such legal threats may explain why Putin withdrew Russia's signature from the Energy Charter Treaty in July 2009.

Russia is not alone in claiming that the treaty is biased in favour of consumers against producers of energy; no other producer country has ratified the Energy Charter Treaty. Russia has suggested that a new and 'fairer' energy charter should be negotiated between consumer and producer countries.

Russia is a member of the Council of Europe, a parliamentary body committed to promoting human rights that is linked to the European Court of Human Rights. Russia's membership is controversial. Some human rights activists want Russia thrown out because of its poor record in that domain. And Russian nationalists resent the fact that Russia accepts the court's jurisdiction. Many Russians denied justice at home take their

<sup>26</sup> Alan Riley, 'Russia's courts of last resort', *International Herald Tribune*, August 5<sup>th</sup> 2011.

cases to the court. In December 2010, there were over 40,000 Russian applications pending at the court, 29 per cent of the total cases pending.<sup>26</sup> The court's rulings are

binding on Russia. The Russian government has not yet rejected a court ruling that goes against it, though many nationalists say it should. However, the Russian government is often extremely dilatory in co-operating with the court and in implementing its rulings. In 2010, after a long delay, it signed 'protocol 14', giving the green light to a reform of the court that is intended to speed up procedures.

Russia's involvement in the Council of Europe and the OSCE – however much it may grumble about those bodies – reveals that it is somewhat more willing than China to accept external governance. In addition to ECHR rulings and OSCE election monitoring missions, Russia has also put up with critical reports

from both the Council of Europe parliamentary assembly and OSCE missions to the North Caucasus. The Chinese government has never accepted any such international monitoring or involvement in its internal affairs.

### Why Russia should take global governance more seriously

If Russia has a future as a global power, it will need to transform its economy. It must become less dependent on natural resource exports. It will need to develop manufacturing and service industries, allow small and medium-sized enterprises to flourish, strengthen the rule of law and disaggregate its business and political elites.<sup>27</sup> It should also arrest its demographic decline. The successful and diversified economy that many Russians would like to see would be more international – receiving more FDI, investing more in other countries and integrating more into global supply chains and capital markets. Such an economy would do more to enhance Russian power than all its nuclear weapons. For example, the Chinese would take Russia more seriously than they do at the moment. A successful Russian economy would have increasingly global interests – notwithstanding the shrinkage of Russia's political frontier since the end of the Cold War.

<sup>27</sup> Sergei Guriev, 'How to reform the Russian economy', *CER policy brief*, July 2010.

A more positive approach to global governance could help Russia to achieve these goals and defend its interests. For example, when it learns to use the WTO to its advantage, Russia will be better able to protect itself against anti-dumping duties that other countries may impose on its metal exports. With Russia's banks becoming increasingly global, its companies raising money in many foreign jurisdictions, and its leaders proclaiming their ambition for Moscow to become an international financial centre, its government should take a greater interest in discussions on international financial regulation.

Russia should seek to join the International Energy Agency, which consists of the main energy-consuming countries, but not the

producers. For the time being membership is confined to countries in the Organisation for Economic Co-operation and Development, the rich countries' economic club, but that could change and Russia is in any case seeking to join the OECD. If the principal producer

<sup>28</sup> Nick Butler, 'Why global energy markets need governing', *CER bulletin* 64, February/March 2009.

countries were included in the IEA, it could start to play a role in smoothing out wild fluctuations in energy prices – fluctuations that create as many problems for Russia as they do for the main consumers of oil.<sup>28</sup>

If Russia started to play a greater role in international climate talks, it would gain the chance to forge useful diplomatic alliances with the many developed and less-developed countries that would welcome a more proactive Russia. Russia has a strong interest in learning to use energy more efficiently. International agreements could make it easier for the Russian government to galvanise companies and state bodies to take energy conservation seriously.

On security governance, too, Russia could improve its image by being more engaged. It could sign up to the International Criminal Court, the Convention on Cluster Munitions and the Ottawa Treaty on land mines. It could seek a compromise on a new Conventional Forces in Europe treaty. It should signal a willingness to embrace further reductions of its nuclear forces, including tactical weapons.

Russia's domestic governance is weak. This makes it difficult for the country to shape the institutions of global governance. But international governance also gives Russia an opportunity to improve the system at home. "We tend to break domestic rules", says Igor Yurgens, chairman of the management board of the

<sup>29</sup> Interview with Igor Yurgens, February 2011.

Institute for Contemporary Development. "International rules are at a higher level, they count for more, so can help governance at

home."<sup>29</sup> According to the Russian constitution, international treaties prevail over domestic law.

At the time of writing, there are some tentative signs that these arguments are making progress within the Russian political class. At the World Bank, officials report that the Russian government is enthusiastically engaging in a host of joint initiatives. It is working with the bank on programmes to improve financial literacy, combat malaria and protect tigers. The World Bank and Russia have also established a 'Moscow process', involving summits (in 2006 and again in 2010) at which emerging powers discuss how they can best help developing countries. One result has been the 'Russia Education Aid for Development' (READ) programme which focuses on boosting education in Angola, Ethiopia, Mozambique, Zambia, Kyrgyzstan, Tajikistan and Vietnam.

Russia is paying the World Bank to teach it how to expand its development assistance programme, on which it spends about \$500 million a year. The bank is advising Russia on the \$9 billion EurAsEC anti-crisis fund that it helped to establish in 2009, to support neighbours in need. Russia is also contributing to the bank's International Development Association, which lends to the world's poorest countries.

Russia is the only one of the BRICS to have applied to join the OECD. In May 2011, Russia signed the OECD convention on bribery, though the Duma has not yet ratified it. This will oblige Russia to make it an offence for its citizens or firms to offer, pay or promise rewards in exchange for favours, in other countries. The OECD scrutinises the performance of all parties to this convention.

A lot of Russian business people, officials and academics want Russia to engage at the global level. "We are prepared to give more authority to international organisations, for example the IMF and the International Atomic Energy Agency, or on climate change, if there is a global accord to do so," says Arkady Dvorkovich. "Historically, we have not been very active on economic global governance, but now we are as active as China. However, we are not treated in the same way because our

<sup>30</sup> *Interview with Arkady Dvorkovich, July 2011.*

economy is smaller, and for the US, China is more important.”<sup>30</sup>

<sup>31</sup> *Russia acceded to the Berne Convention in 1995. Since then it has made efforts to improve intellectual property rights (IPR) in Russia, for example through creating a new IPR court. The US wants it to do more. Medvedev argues that the Berne Convention should be updated to take account of the internet.*

Dvorkovich points to the initiatives that Medvedev has taken in the G20 and the G8, such as proposals for a treaty on civil nuclear security, for harmonising rules on cyber-security, for modernising the Berne Convention on intellectual property rights<sup>31</sup> and for reforming the SDR. “At the G20 we can play a bridging role between the BRICS and the G8, as we are in both.” He says that early in 2011 Russia did help to broker a compromise on the monitoring of global economic imbalances.

But how typical is such thinking of the Russian elite? One Medvedev adviser says that Kudrin and Medvedev would concur with the above sentiments, but not many other senior political figures. Sergei Aleksashenko, a professor at the Higher School of Economics and a former deputy finance minister, is blunter. “Our elite still live in the same zero-sum world that they inhabited during the Cold War,” he says. “Everyone is a friend or an enemy. So they make strategic weapons the basis of our diplomacy.” As for all those G20 initiatives, he says, none of them has succeeded, because Russia has failed to build the necessary coalitions or alliances.<sup>32</sup> That cynicism may be

<sup>32</sup> *Interview with Sergei Aleksashenko, July 2011.*

justified, but Russia seems to be moving very gingerly towards a greater engagement in global governance.

## 4 China

### The evolution of Chinese attitudes

With its growing economic power and diplomatic self-confidence, China will have a huge impact on the future of global governance. This chapter assesses how China’s policy-makers and analysts view the international system. It examines, in particular, how Chinese attitudes are evolving; describes rival schools of thought within China; looks at China’s involvement in global and in regional institutions; and argues that China’s relationship with the US will be crucial in determining Chinese views of global governance. The chapter concludes that greater engagement in multilateral institutions would enhance Chinese power.

Since the Cultural Revolution, China has become steadily more involved in international bodies. The People’s Republic took up China’s place in the UN Security Council in 1971. In the years after Deng Xiaoping began to open up China, the country joined an increasing number of bodies, including the World Trade Organisation in 2001. By the end of 2008 China had joined more than 130 inter-governmental organisations and 24 UN specialised agencies, and it had signed more than 300 multilateral treaties.<sup>33</sup>

<sup>33</sup> *People’s Daily, September 23<sup>rd</sup> 2009. International bodies that China has joined include the Asian Development Bank, the Internet Governance Forum, the Non-Aligned Movement, the International Civil Aviation Organisation, Interpol, the International Hydrographic Organisation, the International Maritime Organisation, the Permanent Court of Arbitration, the World Tourism Organisation and the International Telecommunications Satellite Organisation.*

Over the past decade China has made a big investment in regional institutions, such as the Shanghai Co-operation Organisation and

ASEAN + 3. It has joined the six-party talks that have attempted to tackle the North Korean and Iranian nuclear problems. It has become an active contributor to UN peacekeeping operations. Its leaders have talked about multilateralism and, within the past few years, about global governance.

<sup>34</sup> *The phrase was first used by Robert Zoellick when he was deputy secretary of state, in a speech to the National Committee on US-China relations, September 21<sup>st</sup> 2005.*

Yet China remains far from being the ‘responsible stakeholder’ that many Europeans and Americans would wish to see.<sup>34</sup> Some of the identity that China adopted during the Maoist period persists: China then saw itself as a victim of imperialism, a developing country, a socialist country, an Asian country and a self-sufficient country – and in many ways it still does.

Deng Xiaoping’s ‘28-character strategy’ included the advice that the Chinese should “hide our capacities and bide our time, be good at maintaining a low profile and never claim leadership”. He thought it important to avoid confrontation with the US while China built its strength. That philosophy has been broadly followed by Deng’s successors. They still see domestic economic development as their overriding priority. One consequence is that they want a fairly calm relationship with the US. Another is that they will not sign up to global rules or procedures which could hamper their freedom to run their economy in exactly the way they want. Thus China has so far – notwithstanding the vague conclusion of the Durban climate summit in December 2011 – rejected binding commitments on reducing greenhouse gas emissions. In the ‘currency wars’ of 2010 the Chinese government refused to revalue the renminbi significantly, despite strong pressure to do so from the US, Europe and many emerging powers. And China does not want the International Monetary Fund, the G20 or any other body to pronounce on the ‘global imbalances’ – including China’s current account surplus – that many Western governments believe are destabilising the world economy.

The starting point of Chinese leaders is that as a poor, developing country, China should not be distracted by foreign entanglements. They have viewed multilateral institutions and the concept of global governance as Western inventions that serve the interests of the West. But the Chinese are coming to realise – with some reluctance – that as their power grows, and as their interests become more global, they will have to work through international bodies to protect those interests.

Within the Chinese system, there are many schools of thought on how China should approach international relations. At the risk of over-simplification, there are two broad approaches.<sup>35</sup> On the one side, the realists and the nationalists believe in asserting China’s interests forcefully. They are sceptical that slow-moving international institutions can deliver significant benefits for China. They believe that as China becomes stronger, it should be able to achieve its objectives by acting unilaterally, bilaterally or through small groups of allies. Their world-view is rather similar to that of Donald Rumsfeld or Dick Cheney in George W Bush’s administration – though opposition to the US drives much of their thinking.

<sup>35</sup> *David Shambaugh identifies seven schools of Chinese thought on international relations. See his ‘Coping with a conflicted China’, The Washington Quarterly, Winter 2011.*

On the other side are those who want China to play a growing role in the international system, so that it can protect its interests. These engagers are not multilateralist in the sense that Europeans would understand the word. They do not want strong international bodies to constrain their freedom of action, and they do not want to give others a say over their economic policy (their acceptance of WTO rulings is an exception). When the Chinese talk about multilateralism they mean that governments should get together and try to fix problems. Thus for the Chinese, the six-party talks on North Korea, or Asia-Europe Meeting (ASEM) summits – at which Asian and European leaders gather every two years – are examples of multilateralism. But though Chinese engagers are sovereignty-

conscious and hardly 'liberal' in the Western sense, they are, relative to others in their system, multilateralist and internationalist.

Each of these approaches to foreign policy is rooted in domestic politics. The assertive nationalists tend to oppose liberal political reform, while the engagers are more sympathetic to it. The nationalists tend to favour a strong role for the state in the economy and measures to reduce inequality, while they are more reluctant to welcome foreign investment. The engagers tend to be economic liberals and to argue that the Chinese economy benefits from being plugged into global networks.

In most countries, domestic politics plays a big role in driving foreign policy. But this may be even truer in China than in other places. China is run by the Communist Party of China (CPC), and the job of the various ministries, including the foreign ministry, is to implement the policies set in Zhongnanhai (the leaders' compound in Beijing). Neither China's current leaders, nor its likely future ones, have much experience of foreign policy. Indeed, those who do have international knowledge hold low positions in the hierarchy. Thus Yang Jiechi, the foreign minister, is a relatively junior figure in the Chinese power structure, whereas his Western counterparts tend to be among the most important people in their governments. Even State Councillor Dai Bingguo, the most senior person dealing with foreign policy, is not a member of the CPC's top body, the 24-member Politburo (its nine-man standing committee is where true power lies). This means that when decisions are taken on foreign policy, domestic considerations are likely to be paramount.

In the eyes of the West, and of China's neighbours, Beijing's foreign policy became more assertive in 2009 and 2010; in some

<sup>36</sup> Charles Grant, 'Liberalism retreats in China', CER briefing note, July 2009.

respects this trend continued in 2011. At the same time the state increased its role in the economy and the political system became more authoritarian.<sup>36</sup>

There are probably several causes of these shifts. One is that the global financial crisis that erupted in 2008 – followed by the eurozone sovereign debt crisis in 2010 – highlighted the failings of the West. This made the Chinese more reluctant to accept its sermons, just when their own impressive economic performance was making them cocky. A second reason – even though it may appear at odds with the first – is that a combination of the difficulty of keeping the economy growing through the global downturn, and political unrest in Tibet (in 2008) and Xinjiang (in 2009), made leaders feel insecure. In 2011, the possibility that the Arab spring could inspire anti-government protests in China seems to have heightened the insecurity. A third reason, flowing from the second, is the coming leadership transition: a new generation will take over in October 2012, and there is much jockeying for position; leaders do not want to be seen as soft on foreigners when their futures are uncertain.

Whatever the relative importance of these factors, since 2009 China has taken a relatively tough line with the US, India, Japan, South Korea and the South-East Asians. Within the Chinese system, the hard-liners have seemed to be winning more of the arguments.

### Sceptics on global governance

China's nationalists and realists are particularly influential in the armed forces and the security establishment, where few senior figures have much contact with the West. They are also strongly represented in parts of the academic world. At a populist level the nationalists have had successes with best-selling books such as 'The China that can say no' and 'Unhappy China', and they are influential in newspapers such as *Global Times*.<sup>37</sup>

<sup>37</sup> 'The China that can say no' appeared in 1996, and 'Unhappy China' in 2009. Both volumes had multiple authors but Song Qiang contributed to both. The books are strongly anti-Western and anti-Japanese, arguing that China should assert its own interests more forcefully.

The starting point of the nationalist school is to be hostile to the concept of global governance. Some see it as a Western plot,

designed to entangle China in complex problems – mostly created by the West – that will cost the Chinese money and distract the country from focusing on its own development. These thinkers have not forgotten the ‘century of humiliation’ – the misery inflicted on China by imperialist powers from the mid-19<sup>th</sup> to the mid-20<sup>th</sup> century – and they regard the restoration of China’s great power status as desirable and inevitable.

This school believes that the US will try to prevent China’s re-emergence as a great power, and that competition with the US is inevitable. Indeed, rivalry with the US drives much nationalist and realist thinking in China. Many Chinese fear encirclement by the US, through a web of American alliances with the likes of Australia, India, Japan, South Korea, Taiwan and several South-East Asian states. Some nationalists argue that their government should use its growing military power to exclude the US from the seas around China, or exploit its holdings of Treasury bills to force the US to change its economic policies.

The realists have a narrow view of China’s interests. Many of them view the ‘new security threats’ (such as climate change, migration, terrorism and organised crime) as Western obsessions that could hamper China’s hard-headed pursuit of its national interest. They tend to think that hard power matters much more than soft power.

“Global governance is an imagined topic of the Atlantic mentality”, says Pan Wei, a professor at Peking University. “The same goes for ‘international community’, which cannot mean anything unless India and China are part of it.” But Pan does not subscribe to the full panoply of hard-line realist arguments. He believes that globalisation is creating a set of unpredictable issues and challenges like climate change, currency conflict, the financial crisis, the proliferation of weapons and Islamic terrorism. He thinks that states need to get together to sort out these issues. International institutions are weak and leaderless and

<sup>38</sup> *Interview with Pan Wei, June 2010.* though they may be able to help on the margins, they cannot tackle such problems.<sup>38</sup>

Another leading international relations professor from Peking University, Zha Daojiong, says that China “lacks the capacity to do global governance, that is to say it does not have the people or the conceptual knowledge about the world.”<sup>39</sup> He says that China should know its limits and focus on its own <sup>39</sup> *Interview with Zha Daojiong, December 2010.* problems. On that last point, most Chinese officials and scholars would agree.

Some realist academics think it is time for China to forget some of Deng Xiaoping’s dictums, and to raise its international profile. One of these is Yan Xuetong at Tsinghua University. Like most Chinese scholars – and unlike many Westerners – he does not believe in universal values that everyone should in the long run adopt. “We don’t want to change the US; if we change the world, it is through changing ourselves,” he says. “Confucius said: if you want to learn from me, I won’t turn you away. But I’m not going to go and teach you what to do.”<sup>40</sup> <sup>40</sup> *Interview with Yan Xuetong, June 2010.*

Though a realist, Yan is not an isolationist and he thinks China should be involved in international institutions, to promote its interests. “The nation needs to be more bold and assertive in international affairs...if China wants to regain its historical status as a great power, it must act like a great world power.” He believes that China’s decision not to block the intervention in Libya shows that more people in the Chinese system are coming to share his views. In order that the rising power be “welcomed by the rest of the world, China should act as a humane authority and take on more international responsibilities to improve its strategic credibility.”<sup>41</sup> Yan believes that <sup>41</sup> *Yan Xuetong, ‘How assertive should a great power be?’, International Herald Tribune, April 1<sup>st</sup> 2011.* conflict between China and the US is inevitable, because of the inexorable rise of Chinese power, though he thinks their nuclear arsenals will prevent war breaking out.

The growth of the BRIC economies, America’s problems in Iraq and Afghanistan, and the global financial crisis have led increasing

numbers of Chinese to think that the West is in relative decline and that the Chinese no longer need to accept its tutelage. For some scholars, officials and generals, the growth of Chinese power strengthens the case for a tougher foreign policy: China will be able to achieve its objectives more easily without having to compromise or resort to international institutions. After all, small countries tend to like multilateral institutions because they protect the weak.

Another factor that may encourage a more assertive foreign policy is the growth of nationalist feeling in the country. Experts on Chinese nationalism disagree on the degree to which the government can, or cannot, control it. But many scholars and officials claim that the views of ‘netizens’ – of whom there are about 500 million – are increasingly influential on Chinese foreign policy. This is a point made, for example, by Jin Canrong, a professor at Renmin University. He believes that if the government tried to take a softer line in its disputes with Japan, netizen complaints could hamper its

<sup>42</sup> *Interview with Jin Canrong, December 2010.*

ability to do so.<sup>42</sup> The internet certainly gives the CPC some insight into what Chinese citizens think. Some Chinese officials claim that

pressure from netizens – annoyed that France’s president, Nicolas Sarkozy, had met the Dalai Lama – led Prime Minister Wen Jiabao to cancel the EU-China summit in 2008.

<sup>43</sup> *Linda Jakobson and Dean Knox, ‘New foreign policy actors in China’, Policy Paper No 26, Stockholm International Peace Research Institute, September 2010.*

Jin believes that interest groups such as oil companies, and the military industrial complex, are pushing foreign policy in an assertive direction. Foreign experts agree with Chinese scholars such as Jin that there are many new actors in foreign policy, and that the foreign ministry is less influential than it used to be.<sup>43</sup>

For example, much of China’s involvement in Africa, Central Asia and Latin America is driven by a hunger for natural resources, so it is not surprising that China’s energy and mining companies, and its development banks, seek to steer policy in those regions.

China’s support for the Zimbabwean and Sudanese regimes, which have provided access to mines and oilfields, has led to friction with the West.

The National Development and Reform Commission has a big influence on climate negotiations, and is reported to have insisted on the hard line that China took in Copenhagen. It also appears to be responsible for some of the mercantilist economic policies that may make life difficult for foreign investors in China. The manufacturing lobbies have argued – with some success – against a revaluation of the renminbi, lest it affect their export performance, even though the People’s Bank (the central bank) favours a revaluation in order to curb inflationary pressures.

The People’s Liberation Army Navy may have pushed some officials to declare the South China Sea a ‘core national interest’, but the oil companies and even Heinan’s provincial government may have also favoured a hard line in that sea.<sup>44</sup> Yunnan province may influence policy on Burma, which it borders: it has had to cope with Chinese nationals fleeing from Burma after attacks by Shan insurgents. The ministry of agriculture’s fisheries protection fleet has urged a tough stance over the disputed Senkaku/Diaoyu islands in the East China Sea. The People’s Liberation Army seems to have a role in policy on Taiwan, territorial disputes and proliferation issues, while the Communist Party itself manages relations with North Korea.

<sup>44</sup> *In the spring of 2010 Chinese officials told US officials that the sea was a core national interest. Other officials took a softer line and subsequently Chinese officials did not call the sea a core national interest.*

These foreign policy actors, many though not all of them new, are driving China to be more assertive. Add China’s growing economic and military strength, plus nationalist sentiment, and one may expect a harder-edged foreign policy that is less willing to engage with, and accept the constraints of, global institutions. But one should be cautious about extrapolating too much from the present. Although most Chinese scholars think that nationalism has



strengthened in the past five years, Yan Xuetong points out that China was far more nationalistic during World War II, the Korean War and the Cultural Revolution than it is today.<sup>45</sup> In any case, the

<sup>45</sup> Interview with Yan Xuetong, June 2010.

growth and evolution of the Chinese economy may encourage China to take global governance more, rather than less seriously.

### Engagers in global governance

There are a few Chinese scholars who argue that strong global institutions are required to handle not only economic globalisation but also many non-traditional threats to security, such as crime, disease, terrorism and cyber-war. They stress the importance of soft power and the need for China to take on more international responsibilities. However, very few people in China are ‘liberal internationalists’ in the sense that many Europeans are, that is to say believers in the inherent superiority of a multilateral system.

The Chinese government pays lip service to multilateralism. Indeed, when President Hu Jintao discusses his concept of the ‘harmonious society’, he refers to ‘effective multilateralism’ and talks of the need for a strong role for the United Nations. But for China’s leaders, multilateralism is less a philosophy than a tactic to be used in areas where China lacks the capacity to safeguard its interests by working alone. They also think that China may sometimes need to act in order to avoid the embarrassment of being seen to free-ride off others.

China certainly cares about its international image, and in the first decade of this century it started to play a role in international disaster relief. It helped in the Indian Ocean tsunami of 2004, the Pakistan earthquake of 2005, the Philippines typhoon of 2007, the Haiti earthquake of 2009, the Chilean earthquake of 2010 and the Japanese earthquake of 2011.

But the leadership wants to keep China’s foreign entanglements to a minimum. Thus China has not joined the 48 nations that have

sent troops to Afghanistan, as part of the NATO-led mission, though it frets about the security risks faced by the mines that it owns there.

Shambaugh calls this general approach ‘selective multilateralism’.<sup>46</sup> I shall call the selective multilateralists ‘engagers’. Many government officials, economists, scientists and business people are engagers. They understand that in an age of increasing globalisation, China’s long-term economic development requires interdependency with other leading economies, and thus global rules. Indeed, when some Chinese scholars talk of global governance, they mean economic global governance. China’s leaders are much less willing to become tied up in international security institutions.

<sup>46</sup> David Shambaugh, ‘Coping with a conflicted China’, *The Washington Quarterly*, Winter 2011.

Speaking at a conference organised by the Central Party School in December 2010, one vice minister explained why China took economic global governance more seriously than security global governance:

Our diplomacy is an extension of our internal politics and concerns. Because we are focused on domestic development, we prioritise the economic side of global governance. For the US, non-proliferation is the number one issue, but for China poverty alleviation is more important. For the US, security concerns are more important than economics. Don’t expect China to follow the West in taking up international responsibilities that you determine, as if we are a little brother.

The official line is that China takes global governance very seriously. “China is a constructive player in the reform of global economic governance structures”, wrote Vice Premier Li Keqiang. “China is a beneficiary of economic globalisation. It calls for reform of the international political and economic order in the course of development.

<sup>47</sup> *'The world should not fear a growing China'*, *Financial Times*, January 9<sup>th</sup> 2011.

China worked closely with the international community to address the financial crisis and promote global recovery and growth."<sup>47</sup>

One Chinese official goes into more detail:

We pursue our interests within the system; our participation in the G20, the WTO and the UN shows we are an evolutionary power, not revolutionary. The system is unbalanced, structured primarily in the interests of Western powers. We should reform it to reflect better the interests of developing powers, for example by increasing their weight in the international financial institutions – there has been some reform but the West still dominates – and by giving the G20 a bigger role in economic and financial governance. Our domestic development is interdependent with the West, and requires more opening up and participation in the international system. But you cannot base global governance on the 'Washington consensus', whose weakness was exposed by the financial crisis. The rise of BRIC and BASIC reflects this shift. Similarly, the UNSC should be reformed.

One relatively liberal academic is Feng Zhongping, who heads the European department of the China Institutes of Contemporary International Relations. According to Feng, the country's policy-makers see that current international institutions work in China's interests. "We should be in the circle, not outside, but we cannot do all we are asked to do," he says. "We need to do more, partly to keep the US and the EU happy, but mainly because our interests are expanding. We are becoming a more normal state: as we promote

<sup>48</sup> *Interview with Feng Zhongping*, December 2010.

our interests we see that they are shared, and that global problems like climate change need global solutions."<sup>48</sup>

Another engager is Shi Yinyong, a professor at Renmin University. He argues for China to "increase the extent to which it bears

international responsibility, insofar as this does not violate China's vital interests and surpass its fundamental capabilities; results from an equal consultation between China and the external world, rather than from dictation or coercion by the latter; and correlates to an increase in rights and privileges." That means, he says, that China should reduce its global trade surplus, make a bigger commitment to environmental protection, and engage further on non-proliferation and regional security co-operation.<sup>49</sup>

<sup>49</sup> *Shi Yinhong, 'The roles that China ought to play in the world'*, *German Marshall Fund paper*, June 2011.

Only within the past four or five years have Chinese officials started to talk about global governance as a concept; Western leaders and intellectuals started to use the term more frequently after the financial crisis struck, and the Chinese felt they had to respond. The centre of gravity of China's leaders remains closer to the engagers than to the assertive nationalists.

## Security governance

### *Arms control and proliferation*

In general, China is comfortable with concerts of great powers. Thus it takes part in the six-party talks on the North Korean and Iranian nuclear problems, and the summits organised around the BRICS and BASIC formats. But it remains reticent about multilateral security institutions. It is true that China signed the Nuclear non-Proliferation Treaty (NPT) in 1992 and the Comprehensive Test Ban Treaty in 1996, even though, like the US, it has never ratified the latter. In 2004 it joined the Nuclear Suppliers Group (NSG), which brings together countries with nuclear technology and seeks to limit its spread. It has signed the Biological Weapons Convention and the Chemical Weapons Convention, though it helped to ensure that the latter has a relatively weak inspection and verification regime (the former has none).

China has not signed up to three major initiatives of the last 15 years: the Ottawa Convention that bans the use of land mines, the

Oslo Convention that bans the use of cluster munitions and the International Criminal Court, which seeks to prosecute those accused of war crimes or crimes against humanity (India, Russia and the US have also shunned them). In contrast to Russia, China has not engaged with the US on arms control treaties.

China is the only one of the permanent members of the UNSC that is increasing its stock of nuclear weapons (though it has a unilateral policy of no first use). The author once put a question to a retired Chinese admiral: “If the US and Russia kept reducing their nuclear arsenals, and Britain and France followed suit, would China agree to limit the number of its nuclear warheads?” The answer was: “Why should we, so long as Russia and America have more nuclear weapons than we do?”

In 2010 China opposed Hillary Clinton’s suggestion that its border disputes in the South China Sea should be resolved multilaterally. And although China takes part in several regional talking shops, it has never supported collective security arrangements in East Asia. The People’s Liberation Army probably has very few multilateralists in its top echelons.

In general, China seems to co-operate on security questions just enough in order not to be seen as irresponsible. However, in the area of non-proliferation, China has failed to convince other powers that it is responsible.

In the 1980s China was a proliferator, helping Pakistan with the design of nuclear warheads and ballistic missiles. Since signing the NPT it has cleaned up its act, to a large degree. But it still takes non-proliferation less seriously than Western powers would wish. Chinese companies, including those with military connections, have often been sanctioned by the US for proliferation. The problem continues: in October 2010 the Obama administration complained to the Chinese government about two Chinese firms that were allegedly helping Iran with its missile and nuclear programmes.

“Chinese companies sell dual use equipment to North Korea and Iran, though maybe this is not government policy,” says one US official. “China has rules prohibiting the export of such equipment. China also supplies dual use equipment to Pakistan.”

The US has criticised China for its decision in 2009 to sell Pakistan two nuclear reactors, in breach of NSG rules. The Chinese government retorts that this sale is just a continuation of a nuclear co-operation programme that it agreed with Pakistan in 2003, the year before China joined the NSG. But China did not approve the sale of the reactors until the US struck a deal with the Indians on nuclear co-operation that gave them access to nuclear technology, and required the NSG to grant India exemption from its sanctions. Pakistan is, like India, a country outside the NPT that has built its own bomb, but it has no exemption from NSG sanctions. The Chinese therefore claim that Western opposition to its sale of reactors to Pakistan is a display of double standards. But a senior Russian official comments: “That Chinese argument is ridiculous. India has a good record on nuclear proliferation, while Pakistan has the world’s worst record.”

The Proliferation Security Initiative, the US-led grouping that seeks to thwart the traffic of weapons of mass destruction, now consists of 98 countries, including Russia – but not China (or India). China is uncomfortable with the idea of stopping ships on the high seas, to search for weapons, partly because of its strong attachment to the principle of non-interference in other countries’ affairs, and partly because of its delicate relationship with North Korea. One purpose of the PSI is to prevent Pyongyang proliferating its missile and nuclear technology. Beijing is reluctant to take steps that would enrage Pyongyang.

For many years, the Western powers have been attempting to draw up a ‘Fissile Material Cut-off Treaty’, within a UN framework. The point of such a treaty would be to prevent the production of new fissile material and thus reduce the risk of

nuclear proliferation. China now accepts the principle of such a treaty, as does Russia. However, Pakistan has been blocking the negotiation of a Fissile Material Cut-off Treaty, and China has been unwilling to put any pressure on its ally to show flexibility. One alternative to a global treaty would be an agreement among a smaller group of powers. Both Russia and China oppose this idea, though Western officials working on proliferation say that the Russians seem more concerned about the problem of fissile material going astray than do the Chinese (however, China has introduced an unofficial moratorium on the production of weapons-grade fissile material).

In 2002, the G8 launched the ‘Global Partnership against the Spread of Weapons and Materials of Mass Destruction’. This partnership runs projects designed to stop terrorists or the states that back them getting hold of nuclear materials. Initially, the partnership focused mainly on problems in the former Soviet Union but its scope has subsequently broadened. China is the only permanent member of the UNSC not to be involved. At Deauville in June 2011, the G8 raised the possibility of extending the partnership to non-members such as China that had attended the 2010 Global Nuclear Security Summit in Washington. China’s proliferation experts are divided on whether it should seek to join the partnership.

### *The United Nations*

The Chinese take the UN seriously, though they complain about its inefficiency. They have allowed UN processes to influence domestic legislation. In areas such as rights for disabled people, environmental protection and government transparency, China has amended laws to comply with UN conventions.

The Chinese like the UN’s commitment to state sovereignty. Being one of the five permanent members of the Security Council gives China a privileged position which – like some other members of the ‘P5’ – it is keen to hold on to. China has done its best to

prevent Japan and India gaining permanent seats, though some Chinese officials say that line is bound to evolve over time.

“We have supported recent UN reforms like the creation of the Human Rights Council and the mechanisms for post-conflict peace building,” says one Chinese official. “But we think the UNSC should become more responsible to the General Assembly, via regular reports and briefings from the UNSC president.” UN officials say that China is quite constructive in some UN activities, such as its humanitarian relief operations – though its financial contribution to these is negligible.<sup>50</sup>

<sup>50</sup> *China contributed 0.084 per cent of the total UN humanitarian relief budget in 2009; the European Commission provided 7.4 per cent of that budget.*

China has something of a split identity at the UN: it likes being one of the big boys on the UNSC, but it also sees itself as a spokesman of the G77 group of developing countries. According to an Australian academic: “There are now two Chinas: General Assembly China, which is more rigid and doctrinaire, and Security Council China, which is more pragmatic and flexible.”<sup>51</sup> In the General Assembly or the Human Rights Council, China will play to the gallery and burnish its credentials as a spokesman for the poor. Thus China strongly backs the Millennium Development Goals, initiatives for debt relief, the concept of untied aid and the idea that developed countries should bear the principal burden of tackling climate change.

<sup>51</sup> *Michael Fullilove, ‘The stakeholder spectrum: China and the United Nations’, Lowy Institute, December 2010.*

But on the UNSC, UN officials observe that Chinese diplomacy “is smarter and more subtle than the Russians’”, and that the “Chinese are more reliable at sticking to the deals they have struck”.<sup>52</sup> The Chinese can be relatively constructive and willing to compromise, as in early 2011 when they helped to ensure that Southern Sudan split off

<sup>52</sup> *Quoted in Michael Fullilove, ‘The stakeholder spectrum: China and the United Nations’, Lowy Institute, December 2010.*

peacefully from the rest of Sudan. But China generally takes a defensive attitude, trying to stop things that could hurt it rather than set the agenda. China is the ninth largest contributor to the UN budget, paying 2.3 per cent of the total – though that compares poorly with the US's 22, Japan's 9.5, Germany's 8.7, Britain's 6.1, France's 6 and Italy's 4.9 per cent.

Over the past decade, China has gradually stepped up its role in UN peacekeeping operations. It has about 2,000 peacekeepers taking part in various UN missions, in places such as Haiti, Lebanon, Liberia and Sudan, while the other permanent members of the UNSC do not provide blue helmets. China contributes almost 4 per cent of the UN peacekeeping budget. However, Britain and Germany pay twice as much into the peacekeeping budget, while countries such as India, Bangladesh and Pakistan provide many more UN peacekeepers than China. The Chinese send medical staff, engineers and policemen rather than front line soldiers on these missions. China has also maintained two warships and a support vessel off the coast of Somalia since December 2008, as part of international efforts to combat piracy.

Before he stood down as secretary-general in 2005, Kofi Annan pushed through a series of UN reforms. As part of this package, the UN's membership, including China, adopted the principle of the 'responsibility to protect' at that year's World Summit.

China has occasionally softened its opposition to the principle of non-interference, under Western pressure. Hence its support for four rounds of UNSC sanctions against Iran, and five UNSC resolutions critical of North Korea. Yan Xuetong believes that China's response to the Libyan crisis shows that its attachment to non-interference is weakening a little.

But China's support for Russia's strong opposition to sanctions against Syria suggests that Chinese hostility to liberal interventionism

is unlikely to soften.<sup>53</sup> One reason is that this hostility stems partly from history – as the relatively recent victim of foreign invasions, China has a natural sympathy for poor countries that attempt to resist Western pressure. A second is that China does not want to be told by other powers to treat Tibetans or Uighurs more softly, lest their protests be encouraged. A third is that it often suits China not to pressurise regimes such as Sudan, Burma, Iran or North Korea to change – even when urged by the West to do so – because it benefits from the status quo in such countries. In the cases of Burma, Iran and Sudan, China has access to raw materials that it craves, while in North Korea the status quo is less frightening than any alternative the Chinese can imagine.

China's attachment to the principle of non-interference is shared with its fellow members of the BRICS and BASIC clubs. So is its hostility to applying conditionality to aid. The penchant of Western governments, the EU and international financial institutions to make aid conditional, for example by linking it to human rights issues, is strongly opposed by China. The unconditionality of China's aid is one reason for its popularity with many governments in Africa and other parts of the world (though the unconditionality is not always so popular with the people).

While the war in Libya is unlikely to have transformed China's views on humanitarian intervention, it has made the Chinese more aware of their global security interests. When the unrest began, China chartered ships and planes to evacuate 36,000 Chinese citizens from Libya. China also took out 2,000 citizens of other countries.

## Economic governance

### *Climate*

Much of the rest of the world sees climate change as a test-case for

<sup>53</sup> *China has wielded its veto eight times on the UNSC, fewer times than any other permanent member, and twice to protect Syria. Until 1971 the Republic of China (Taiwan) sat on the UNSC. It only vetoed once, to block Mongolia's bid for UN membership in 1955.*

China's willingness to engage in global governance. China produces a quarter of the world's carbon emissions, and that share is rising fast; without China, international efforts to tackle global warming are doomed to failure. China has been much criticised for failing to make firm and binding international commitments to combat climate change. But its leaders appear to take global warming seriously. They worry about the spread of deserts and the risk of sea levels rising. Such concerns are evident in the country's five-year plans.

During the period covered by the 11<sup>th</sup> five-year plan (2006-10), China came close to meeting its target of boosting energy efficiency by 20 per cent. In several regions, pilot carbon emissions trading schemes have been established. The government is investing massively in wind, solar and nuclear power, and may already have the largest installed capacity of wind and solar power of any country in the world. China takes part in the Major Economies Forum and is in favour of any kind of international co-operation that leads to the transfer of Western energy technology to China.

Just before the UN Framework Convention on Climate Change summit in Copenhagen, in December 2009, the government committed to a 40-45 per cent increase in energy efficiency – from 2005 levels – and to sourcing 15 per cent of its energy from non-fossil sources, by 2020. However, Beijing's ability to make local governments – generally very focused on investment and growth – respect energy and carbon targets is open to question. As the old Chinese saying goes: "The mountains are high and the emperor is far away."

Furthermore, China is unwilling to sign up to international commitments that could constrain its freedom to run its economy the way it wants. It has greatly benefited from the UN's 'clean development mechanism', which allows Western investors to buy carbon credits from projects in China that curb carbon emissions. But in Copenhagen, China refused to sign up to any binding targets

for reducing carbon emissions, and even blocked an attempt by developed countries to commit to curbing their emissions. China's uncompromising stance in Copenhagen – and the brusque manner of some Chinese officials, one of whom wagged his finger at President Obama – caused consternation not only in Europe and the US, but also in other places. Many of the world's poorest countries wanted binding curbs on carbon emissions.

At that summit China worked closely with the other members of BASIC – Brazil, India and South Africa – and several leading members of the G77 group of developing countries, which helped it to achieve its objectives. However, some Chinese leaders did appear concerned about the bad publicity; the government later conducted an inquiry into how it had handled its public diplomacy.

China's tone at the follow-up United Nations summit in Cancun, a year later, was more constructive and less argumentative than in Copenhagen. Chinese delegates spoke softly and avoided controversy. They accepted a compromise proposed by India on the verification of emissions: countries would declare their emissions reductions targets and report on their progress towards meeting them, but there would be no international monitors or penalties for countries that failed to reach those targets.

In March 2011 China unveiled a new five-year plan, calling for a 16 per cent reduction of energy consumption per unit of GDP, a 17 per cent cut in CO<sub>2</sub> emissions per unit of GDP and for non-fossil fuels to provide 11.4 per cent of primary energy consumption, all by 2015. Those goals, if fulfilled, would significantly reduce China's CO<sub>2</sub> emissions, compared with what they would otherwise be.

Then in December 2011, at the climate change summit in Durban, China for the first time more-or-less accepted the principle of binding targets on carbon emissions. The summit was hardly a triumph for those who want firm action against global warming: the agreements reached could lead the earth's

temperature to rise by 4 degrees, rather than the 2 degree limit that is the stated aim of the UN process. Nevertheless, China and other developing countries joined the rich ones in agreeing to negotiate and take part in a new carbon emissions regime (to replace the Kyoto protocol) by 2015. They also agreed that it should come into effect by 2020. The EU failed to get others to agree that the regime should be legally binding but everyone did accept that it would be “a protocol, another legal instrument or an agreed outcome with legal force”. What that will mean in practice is anybody’s guess.

### *Global finance*

Given that China is the world’s biggest emitter of CO<sub>2</sub>, it is not surprising that its climate diplomacy sometimes attracts criticism in the West. When it comes to the regulation of international financial markets – where China is not a dominant player – it enjoys a much stronger reputation. Until 2009 China did not take part in the Financial Stability Forum, an informal grouping of Western regulators, or the Basel Committee on Banking Supervision. Since April 2009 both those bodies have come under the aegis of the G20 and had their memberships expanded to include emerging powers.

Senior past and present Western regulators, such as Jean-Claude Trichet, former president of the European Central Bank, Adair Turner, chairman of the UK’s Financial Services Authority, and Sir Howard Davies, a former deputy governor of the Bank of England, are among those who praise China for sending good people to international financial institutions, and for its constructive attitude to them. For example, Governor Zhou Xiaochuan, of the People’s Bank of China, and Liu Mingkang, until recently chairman of the China Banking Regulatory Commission, have both won plaudits. China’s representatives usually speak good English and have contributed to debates on issues such as liquidity and bank capital (including the new ‘Basel 3’ rules). The Chinese are constructive in bodies such as IOSCO – which groups together securities

regulators – and the International Accounting Standards Board, where one of the six permanent directors is Chinese.

China is also taking the World Bank and the International Monetary Fund increasingly seriously. China has long complained about its under-representation in the international financial institutions. Recent reforms have given China a larger share of the votes.<sup>54</sup> However, the Chinese still grumble that the US has a de facto veto over decisions in these bodies and that the EU has a disproportionate share of the votes. And Chinese officials – like some of their counterparts in Africa, Asia and Latin America – complain that the Fund’s orthodoxy of open markets, free flows of capital and floating exchange rates has contributed to past crises. China is wary of the IMF’s efforts to monitor exchange rates and global imbalances, lest they add to the pressure on China to float its currency (see below). However, at the London G20 summit, in April 2009, China agreed to put an extra \$50 billion into the IMF, thereby increasing the fund’s ability to lend.

<sup>54</sup> *In the World Bank, China’s share of the votes is now third equal, with Germany; its share has risen from 2.77 per cent to 4.42 per cent. In the IMF China now has the third largest share of the votes; its share has risen from 4 per cent to 6.4 per cent.*

When Dominique Strauss-Kahn resigned as managing director of the IMF, in July 2011, China signed a BRICS statement that was critical of the EU for demanding that a European – Christine Lagarde – take over. But then in private, Chinese officials told the French they would back Lagarde. China’s reward, when Lagarde got the job, was the promotion of Zhu Min, one of the brightest sparks in the IMF and a former deputy governor of the People’s Bank of China. The World Bank’s chief economist is Justin Yifu Lin, who started his career in Taiwan before defecting to the People’s Republic of China.

China is less instinctively hostile to the World Bank, since its brief is development. And China is the biggest borrower from the World Bank, with about \$13 billion (11 per cent of its total lending)

outstanding. In 2011 it repaid early \$2.5 billion of credits from the bank's International Development Association, which gave the bank extra resources to lend to the world's poorest countries. China has also stepped up its own contributions to the IDA.

The most sensitive area in the US-China economic relationship is the exchange rate. The Americans and many others complain that China fixes the renminbi at too low a level, and that this makes it hard to unwind the global imbalances – particularly China's large current account surplus and the US's large current account deficit – that contributed to the financial crisis. The Chinese government is reluctant to let its currency rise, since that would harm export industries. It also complains that the Federal Reserve's policy of 'quantitative easing' – creating credit in an effort to boost demand – has inflationary implications for the rest of the world and could exacerbate asset bubbles in China.

In April 2009, when pressure was mounting on China to do something about its under-valued exchange rate, Governor Zhou floated a scheme for transforming the special drawing rights (SDRs) issued by the IMF into a "super-sovereign reserve currency". This scheme reflected China's unease that so many of its reserves are in dollars, and thus vulnerable to a decline in value of the US currency, and that the current, 'unipolar' currency system gives the Americans privileges that others do not enjoy. Zhou's idea was to change the composition of an SDR, so that it would include not only the dollar, euro, pound and yen, but also other currencies such as the renminbi; and to encourage SDRs to be used for settling trade and financial transactions.

In the West, most officials did not take the Chinese scheme very seriously. The SDR is closer to an accounting unit than a real currency, and the IMF is not a central bank that can print money. SDRs could not be used to settle international trade without being broken down into their component currencies. And so long as the renminbi remains unconvertible, it cannot be a component of a

tradable SDR. As Professor Barry Eichengreen, of the University of California, Berkeley, has remarked: "No global government, which means no global central bank, means no global currency. Full stop."<sup>55</sup>

<sup>55</sup> Quoted in 'Currencies: strength in reserve', *Financial Times*, February 8<sup>th</sup> 2011.

Among Chinese academics, there is some cynicism about Governor Zhou's initiative. The drop in the dollar's value in recent years has hit the value of both China's foreign exchange reserves, and of investments by its sovereign wealth funds, creating embarrassment for the officials charged with their management. Some view the Zhou scheme as a device to distract attention from this problem.

By the spring of 2011, the Chinese government's enthusiasm for Zhou's ideas was dwindling. Tim Geithner, the US Treasury secretary, had set conditions for allowing the SDR to include the renminbi: an independent central bank, flexible exchange rates and free capital flows. China satisfies none of those conditions. Its leaders – who tend to bristle when Westerners try to impose conditions on them – saw that SDR reform was being used as a lever to make them change their exchange rate policy.

Nevertheless, China is the first non-Western power to have come up with a fairly serious proposal for the reform of global financial governance. Very slowly, China is allowing greater use of the renminbi outside China. Most China-watchers presume that one day the currency will be convertible. Robert Zoellick, the World Bank president, has called for an 'SDR forum' including the IMF, the US, the eurozone, Britain and Japan, to review currency and monetary issues. China should be offered a place in the forum and eventually – when its currency is internationalised – in the SDR. "This could stimulate an internal debate about preparations for renminbi internationalisation, just as China's accession to the WTO prompted domestic reforms."<sup>56</sup> In the long run, when the currency is convertible, Zhou's ideas may return to the agenda.

<sup>56</sup> Robert Zoellick, 'Monetary reforms for a multipolar world', *Financial Times*, February 17<sup>th</sup> 2011.



### *The G20*

The Chinese like the G20, which first met at heads of government level in November 2008. In the years before the financial crisis, China was one of the ‘outreach five’ that joined G8 summits in the ‘G8+5’ format. The Chinese found that status humiliating and much prefer the G20, since it gives them an equal role to the Americans.

It has taken the Chinese some time to become accustomed to the G20. The Europeans have a natural affinity for multilateral processes. One journalist with experience of reporting on the EU noticed this when attending the G20 summit in Pittsburgh in September 2009:

I found the surroundings and the atmosphere strangely familiar. It felt like I was back in Brussels, and this was just a globalised version of an EU summit. It was the same drill and format. The leaders’ dinner the night before the summit; a day spent negotiating an impenetrable jargon-stuffed communiqué; the setting up of obscure working groups; the national briefing rooms for the post-summit press conferences.<sup>57</sup>

<sup>57</sup> Gideon Rachman, *‘Zero-sum world’*, Atlantic Books, 2010.

The Chinese, in contrast, have found this system foreign. After the London G20 summit in April 2009, President Hu Jintao was the only leader not to give a press conference, apparently because he did not want to run the risk of receiving hostile questions. The G20 has adopted the G7 and G8 system of ‘sherpas’: senior officials representing their leaders who work behind the scenes to fix the conclusions in advance. Sherpas need to be able to negotiate and bargain on behalf of their leaders, without having to refer back to them constantly, and for Chinese officials that is very difficult. Emerging powers are often wary of international summitry, seeing it as a game that the West dominates. But they are learning to play the game, fast.

China now often dominates G20 summits, alongside the US. Though many Westerners have become rather cynical about the G20, Chinese officials still take it seriously. They point to its success in creating the Financial Stability Board (which replaced the Financial Stability Forum) and in co-ordinating the economic stimulus packages that followed the financial crisis. And they say that apart from the UN it is the only important international mechanism that is sustainable, because it is representative. They talk vaguely of giving it a greater role in the management of the global economy. In the words of one Chinese official:

The G20 emerged not only because of the financial crisis but also because of the power shift [away from the West]. We think it relevant, as one cannot handle all financial and economic issues bilaterally. We like the G20’s principles: there are no blocs, and equal rights for all; everyone contributes according to their capacity; and it is understood that one should not put pressure on countries on particular issues (like ‘global imbalances’).

Despite this official’s comments, there are, arguably, blocs emerging in the G20, notably around the BRICS and the G7. And China has come under pressure on particular issues, though it usually finds allies in the battles that matter to it. In November 2010, the Seoul G20 summit mandated the IMF to monitor global imbalances – but China and Germany defeated an American plan for a numerical limit on current account deficits and surpluses of 4 per cent of GDP. Then at a meeting of G20 finance ministers in February 2011, China fought alone to ensure that a passage in the communiqué discussing what the IMF should monitor did not directly mention foreign exchange reserves or exchange rates. China succeeded. It suits China to be able to use the G20 to deflect bilateral pressure from the US on an issue such as exchange rates.

By the time of the Cannes G20 summit in November 2011, the prominence of the eurozone’s travails meant that US-China

tensions were no longer paramount. In any case, some of the causes of those tensions were diminishing. The renminbi rose by 12 per cent against the dollar, on an inflation-adjusted basis, from June 2010 to February 2012. And China's current account surplus shrank from 7 per cent of GDP in 2007 to about 3 per cent in 2011.

### *Trade*

China punches below its weight in the World Trade Organisation. When it joined in 2001, its partners did not expect it to act as one of the leading countries in the WTO. But after ten years – with China having in the meantime become the world's top exporter – they are expecting more. Western governments do not think China has played a constructive role in the stalled Doha round of trade liberalisation. The last occasion when a breakthrough seemed possible was the summer of 2008. At one point the US thought China would support its pressure on India to lower tariff protection for agriculture. But in the end, China backed India's resistance and the talks stalled (the US's own intransigence on issues such as cotton subsidies also played a part in the breakdown). For much of the Doha round, China has left India and Brazil to speak for much of the non-Western world, while quietly opposing attempts to liberalise services and agriculture.

On several occasions WTO dispute settlement panels have ruled against China, which to its credit has accepted these rulings (there have also been much rarer examples of China winning cases in the WTO). In 2007, a Chinese national was elected to sit on the dispute

settlement mechanism. But with the US, the EU and others complaining about what they perceive as greater Chinese protectionism, the number of cases brought against China is likely to rise.<sup>58</sup>

For example, the EU and the US complained to the WTO that Chinese duties on raw material exports distort trade: they give

<sup>58</sup> Charles Grant. 'Is China being beastly to foreign investors?', *CER insight*, July 2010.

Chinese firms that need to buy those materials an advantage, and they draw foreign investment to China. In July 2011, a WTO panel ruled against China on this issue. Another case may follow on 'rare earths': in 2010 China blocked their export, apparently in breach of WTO rules. Western companies operating in China say that its government breaks WTO rules by forcing them to transfer intellectual property, thereby discriminating against Western firms. But these firms usually press their governments not to complain, since they wish to stay on the right side of the Chinese government.

When China joined the WTO it promised to sign up to its code on public procurement. Ten years on, China is still not covered by the code; it has offered to sign, but on terms that other WTO members find unacceptable. However, China may be rethinking its attitude to the public procurement code.

Some people within the Chinese government would like their country to play a bigger role in the WTO. They value it as an 'external anchor' that can help them to resist further pressure for protectionism at home.

### **Regional governance**

Over the past 15 years or so, China has become increasingly interested in institutions of regional governance. China's leaders realised that by taking part in regional talking shops they could reassure neighbours concerned about its rising power. They also thought that these institutions could serve to protect China's interests, and curb US influence, in its neighbourhood.

The Asian financial crisis of 1997 gave a boost to regional co-operation. Many countries had to devalue and found that the IMF – offering only 'Washington-consensus' medicine – was of little help. China chose not to devalue, which helped the relative export competitiveness of its neighbours' economies. It also gave financial aid to several South-East Asian countries. After the crisis, some of

them thought that with growing economic and financial interdependence, greater regional co-operation made sense. Chinese officials came up with a slogan, “mulin, fulin, anlin” which means “establish good neighbourliness, make neighbours prosperous, and make them feel secure”.

China supported the aspirations of ASEAN to become the focus of broader regional initiatives, such as ‘ASEAN + 3’ (China, Japan and South Korea) and the ASEAN Regional Forum (ARF).<sup>59</sup> In

<sup>59</sup> *The ARF, which first met in 2005, has 27 members: 24 Asian countries, plus the EU, Russia and the US.*

January 2010, the ASEAN-China free trade agreement went into effect. It has boosted trade between the ASEAN countries and China, which now totals about \$200 billion a year.

China likes bodies such as ASEAN + 3 because neither the US nor its allies take part. So when the East Asia Summit was established in 2005, China was initially reluctant to see India, Australia and New Zealand invited. But it accepted the wishes of Japan and some South-East Asians that those countries should be included, and recently agreed that the US and Russia should also be invited.

The Shanghai Co-operation Organisation has provided a framework for China to settle border disputes with the five other members. The SCO is a forum in which its members can discuss regional security and economic issues. But the SCO has failed to develop as a significant organisation in its own right, partly because both China and Russia are wary of the other one dominating it. It had no role to play during the crisis in Kyrgyzstan in 2010 and seems unlikely to develop any significant operational role in security or economics.

<sup>60</sup> *Charles Grant, ‘India’s response to China’s rise’, CER policy brief, August 2010.*

From the mid-1990s until 2010 China succeeded in improving relations with most of its neighbours. It settled border disputes with most of them, though not with India.<sup>60</sup> The plethora of regional talking shops has probably helped. But many tensions remain.

Some of these stem from arguments over the big rivers that rise in China. The Amur, the Brahmaputra and the Mekong are among those that China is damming – to the concern of countries downstream. The 1997 UN Convention on the Law of the Non-Navigational Uses of International Watercourses is the only treaty governing shared freshwater resources. It seeks to ensure the fair use of shared rivers, the prevention of damage and the notification of significant plans. China, Burundi and Turkey are the only countries that voted against the convention (though China claims to be following the convention’s provisions).<sup>61</sup>

<sup>61</sup> *This convention cannot take effect until ratified by 35 countries; so far only 16 have done so.*

Disputed sea water has damaged China’s image more than disputed river water. In 2010 and 2011, arguments over territorial claims in seas, and other confrontations in them, frittered away some of the goodwill that China had built up with its neighbours in previous years. In March 2010, North Korea sank the *Cheonan*, a South Korean ship, killing 46 people – and then in November of that year shelled an island, killing four more. Beijing refused to criticise Pyongyang for either incident, which upset Seoul.

China took a harder line in its territorial dispute with Japan in the East China Sea: in September 2010 a Chinese fishing boat rammed a Japanese boat and the Chinese captain was detained. The Chinese government then arrested some Japanese businessmen and blocked the export of rare earths to Japan. The captain was released but China still demanded an apology and compensation, which many South-East Asians thought over the top.

China reasserted its claims to the disputed Paracel and Spratly islands in the South China Sea; Vietnam, Brunei, the Philippines and Malaysia also claim some of those islands. Many disinterested observers regard China’s claim to most of the sea as extravagant, since they are based on Chinese maps rather than the criteria laid out in the Convention on the Law of the Sea. When some Chinese officials defined the sea as a ‘core national interest’ – a term normally

applied only to Tibet and Taiwan – several ASEAN members became worried. In July 2010, Hillary Clinton, the US Secretary of State, said at the ASEAN Regional Forum in Hanoi that freedom of commerce in the sea was a core US interest. She implied that the US thought China's claims were invalid and said that disputes over the

<sup>62</sup> *The UN Convention on the Law of the Sea – which China, unlike the US, has signed – provides a basis for settling competing maritime claims. But China has been unwilling to submit its claims to arbitration.*

islands should be resolved multilaterally. This annoyed the Chinese, who reiterated their position that such disputes should be resolved bilaterally with the countries concerned, rather than through ASEAN or outside mediation.<sup>62</sup> China's hard line went down badly with several South-East Asian governments.

The Americans' comments on the South China Sea have annoyed the Chinese and probably made it harder for them to soften their position. Not all ASEAN countries have island disputes with China or are enthusiastic about the US's renewed commitment to the region's security. Thailand, Cambodia and Burma (notwithstanding its recent rapprochement with the West) enjoy fairly warm relations with China. Some other ASEAN members, however, have privately urged the US to boost its commitment to Asian security in order to balance the rise of China.

Chinese officials generally talk up the importance of regional governance. "These regional bodies can serve as a basis for global governance," says one diplomat. "They all have merit in promoting stability, and we should let a thousand institutions flower." Some academics are more dismissive of bodies that are toothless. According

<sup>63</sup> *Interview with Pan Wei, June 2010.*

to Pan Wei: "Regional organisations are not important, they are just forums; these institutions cannot govern us."<sup>63</sup>

## China and the US

China's view of foreign policy and global governance is shaped to a large extent by its view of the US. America is the benchmark

against which the CPC measures China's performance. Despite their frequent talk of 'win-win solutions', Chinese leaders often think in zero-sum terms. What is good for China may be bad for the US, and vice versa. Though many Western leaders say they welcome China's rise, the Chinese are not often convinced of their sincerity. And they worry that so long as their political system is different to that in the US, Americans will try to destabilise it. They are right that the difference between the two systems leads to tension. In the words of Aaron Friedberg, a senior official in George W Bush's administration: "The US aims to promote 'regime change' in China, nudging it away from authoritarianism and towards liberal democracy, albeit by peaceful, gradual means."<sup>64</sup>

<sup>64</sup> *Aaron Friedberg, 'A contest for supremacy: China, America, and the struggle for mastery in Asia', Norton, 2011.*

But the Chinese can also be paranoid. When the Nobel Foundation awarded its peace prize to the imprisoned dissident Liu Xiaobo in December 2010, many Chinese officials and academics appeared to believe that the foundation was following orders from Western governments. They believed that the award was part of a US-led plot to undermine the Chinese political system and so weaken the country.

China is very sensitive to any US move that could be interpreted as being part of a strategy of 'containment'. In 2010, for example, Obama's decision to allow a further sale of arms to Taiwan, Hillary Clinton's comments on the South China Sea, and a US statement during the fishing boat dispute that its security alliance with Japan covered the contested islands, all fuelled fears of encirclement. Obama's visits to India, Indonesia and South Korea in November 2010 – three countries that worry about Chinese power and that are seeking closer ties with the US – reinforced Beijing's concerns.

The US continued to annoy China in 2011. In the summer, the US conducted various naval exercises in the South China Sea with Australia, Japan, the Philippines and Vietnam. In November nine

nations signed up to Washington's plans for a 'Trans-Pacific Partnership', involving free trade and elements of a single market. The Asian countries included are Australia, Brunei, Malaysia, South Korea, Singapore and Vietnam. Japan is considering becoming the 10<sup>th</sup> member but China is not involved. Later that month, in Australia, Obama said that as far as the Pacific was concerned, America was "here to stay". He announced that 2,500 Marines would be based in Darwin. Then in January 2012, in a major speech on security policy, Obama announced significant cuts to the defence budget and a partial pull-back from Europe – but also a reinforced commitment to Asian security. Such policies are grist to the mill of China's nationalists.

When it comes to global governance, China thinks that the US may use its leading role in many institutions to damage Chinese interests. It worries that the US has tried to use the G20 and the IMF to force China to revalue its currency. And despite the accord reached in Durban, China remains concerned that Europeans and Americans could use climate change negotiations to make it adopt measures that would weaken its industrial base and energy security. The Chinese particularly like international organisations which the US cannot dominate or in which it is absent.

Over the past few years, the idea that a de facto G2 of the US and China will manage global affairs in the 21<sup>st</sup> century has been much discussed. Beijing and Washington sometimes dominate international talks on climate change and the management of the global economy. As two Canada-based scholars observe:

What China and the US do, either alone, together, or with their respective allies in global multilateral and regional forums will increasingly define the 'limits of the possible' for global governance. Amid the global economic crisis, both China and the US showed that they are interested in working together and, equally important, in embedding their bilateral

relations in multilateralism. The G20 leaders' process...has emerged as their preferred forum, at least for financial crisis management and possibly for directing the Bretton Woods institutions more broadly.<sup>65</sup>

<sup>65</sup> Gregory Chin and Ramesh Thakur, 'Will China change the rules of global order?', *Washington Quarterly*, October 2010.

However, the EU's roles at the Cannes G20 summit, when it was the problem, and at the Durban climate summit a month later, when it helped broker a solution, show the limits to the concept of the G2. And the official line in China is that a G2 would be a bad idea. If people thought that China was part of a diarchy running the world, they would expect it to take on many more responsibilities.

Some influential Chinese academics dissent from the official line. Yan Xuetong welcomes the prospect of a G2, because he worries about international anarchy. "You see the problem of policy vacuums everywhere, such as in Afghanistan and Iraq. Our national interest is to shape the world, and if we want more rights we should take on more responsibility – but we are too focused on our short-term economic interests."<sup>66</sup>

<sup>66</sup> Interview with Yan Xuetong, June 2010.

### Why China should take global governance more seriously

Nobody can be sure whether China's growing power will make it more unilateralist or multilateralist. As its economic and military muscles strengthen, it may believe that it can best pursue its interests through direct action, either on its own or with groups of allies. It may become contemptuous towards the slow-moving international bodies that Europeans tend to take so seriously (and that Americans becoming aware of their own relative decline should take more seriously).

But such an approach would not serve China's interests. Compared with Russia, China has a fairly good record on economic multilateralism, but it could do better. And if China's

rulers drew up a cool analysis of the steps required to bring about a healthy, modern, strong and more balanced economy, they would surely endorse a greater commitment to global economic governance. As a major exporter, China has a clear interest in strengthening the multilateral trading system. It should do what it can to conclude the Doha round, and if that proves impossible, propose viable alternatives that would deliver some of the lower tariffs that the Doha round aspires to achieve. As a major CO<sub>2</sub> emitter that has a strong interest in boosting energy efficiency, it could lead the BASIC countries into making proposals for the carbon emissions regimes and institutions that will replace the Kyoto Protocol.

As an economy that is investing more in, and competing for contracts in, other parts of the world, China should support rules that protect foreign investment and ensure fair procurement. It should not discriminate against firms that have invested in China, and it should sign the WTO code on public procurement without delay. China wants to develop an innovative economy, and that requires the protection of intellectual property. As China's companies learn the importance of protecting their own IP, its government will have to treat others' IP less cavalierly. And as a country with an interest in a stable world economy, China should be willing to co-ordinate

<sup>67</sup> Martin Wolf, 'How China should rule the world', *Financial Times*, March 23<sup>rd</sup> 2011.

exchange rate policy with other emerging powers and Western countries.<sup>67</sup> This does not mean 'giving in' to requests by the US. It does mean taking some responsibility for the

financial system and being willing to negotiate on sensitive issues, in the G20 or elsewhere. In any case, China will almost always find that it has allies on the key issues.

China's leaders acknowledge that, as an economic super-power, they need to play a leading role in multilateral economic institutions. When it comes to security governance, however, China has much farther to go. This report has described China's reluctance to engage

in this area. But, once again, a cool analysis of China's security interests should lead to a different approach. There are two big reasons why Chinese attitudes should evolve. One is that a lot of countries worry about China's growing power. The other is that many challenges that matter to China cannot be tackled except through international co-operation.

The Chinese have shown that they understand the value of regional bodies, even if their more assertive line of the past few years has frittered away some of the credit they accumulated with their neighbours. A renewed commitment to regional governance would help to restore that credit. For example, China could revive the idea of joint Chinese-Japanese exploration for oil in the East China Sea. It could offer to submit disputes over islands in the East and South China seas to international arbitration. It could suggest ways of strengthening ASEAN + 3, ARF and the East Asia Summit, so that they become something more than mere talking shops.

A few small steps at a global level would help to reassure countries such as India, Russia and the US that have concerns about China's military ambitions. Beijing should enforce non-proliferation regimes more stringently than it does. It could state that if the US, Russia, France and Britain reduced their strategic forces below certain levels, it too would engage in nuclear disarmament talks. It could also be more proactive in persuading Pyongyang and Tehran to abandon or scale-back their nuclear programmes.

More generally, China could join the International Criminal Court, ratify the Comprehensive Test Ban Treaty, sign the international treaties on land mines and cluster munitions and take part in the Proliferation Security Initiative. Taking such steps would put China in a stronger position to ask for favours from other powers in return. China would also be better placed to shape these and other regimes and organisations. A more positive approach to global governance would enhance China's soft power.

In very broad terms, the Chinese probably have a greater need of global governance than the Americans. Compared with the US, China is in a geostrategically more dangerous part of the world, less

<sup>68</sup> Philip Stephens, 'How a self-sufficient America could go it alone', *Financial Times*, January 13<sup>th</sup> 2012.

well-endowed with natural resources, more vulnerable to the impact of climate change and economically more dependent on an open international trading system.<sup>68</sup>

Some Chinese officials and academics agree with at least some of the case for greater engagement in global governance. It is possible that when China is even stronger than it is today, it will feel more secure about being able to defend its interests in international forums. It may become more confident that these forums can serve as vehicles for promoting China's interests. It may realise that strident, unilateralist behaviour – of the sort that President George W Bush practised in his first term of office – can damage a country's soft power. A good summary of this optimistic case is made by Shi Yinhong:

We are more pro-global governance than Russia, which is more nationalist and tough than we are. If Russia concedes it does so for realist calculations of self-interest. China is more liberal because we are more worried about pushing our views against the US. Our elites are becoming more liberal – the exception may be the PLA – and more people take global governance seriously. We'll be quite engaged in it,

<sup>69</sup> Interview with Shi Yinhong, June 2010.

compared with Russia and India, so long as we are not asked to do things that hurt us, as on climate change.<sup>69</sup>

Huang Ping, the head of the American Institute at the Chinese Academy of Social Sciences, even predicts that in the long term China may be “more positive about global governance than the US, which is obsessed with the nation-state. Our internal economic

<sup>70</sup> Interview with Huang Ping, June 2010.

development requires co-operation with and integration with the EU, the US and Japan.”<sup>70</sup>

Huang may be right, in certain areas. After the UN climate change summits in Cancun and Durban, in December 2010 and December 2011, many delegates said that the US, rather than China, remained the biggest obstacle to a binding accord on reducing carbon emissions; it was impossible to imagine how the US Senate could ever approve a climate treaty. The weighting of votes in several key international bodies is likely to rebalance, to reduce the clout of the US and the EU; this may encourage Chinese people to think that multilateralism can work for them.

But though China may become, in some ways, a more responsible stakeholder, its worldview is likely to remain very different to that of the Europeans, and fairly different to that of Americans. The Chinese will continue to emphasise non-interference, absolute sovereignty, a harmonious world and diplomacy as the answer to all difficult issues. They will continue to play the role of the developing world's spokesman against the West. But Westerners will continue to talk – to a greater or lesser degree – about universal values, shared sovereignty and a normative foreign policy that encourages other countries to change their behaviour through suasion and conditionality.

## 5 What role for Europe?

### **The impact of the West on global governance**

The way that Russia and China approach global governance will depend to quite a large extent on the behaviour of Americans and Europeans. The US is the benchmark against which Russia and China measure themselves, particularly on security issues, but they know that the EU also matters because of its economic heft. The more that Western countries are seen to work through international bodies, rather than unilaterally, the more Russia and China are likely to do the same. And the more that the West can make emerging powers think they have a role to play in influencing and shaping those bodies, the more seriously they will take them.

The US played the leading role in creating the current system of global governance and is still active in many international institutions, especially those that deal with economics. As the number one power, it should take prime responsibility for reforming the system. But while some *New York Times* columnists – and possibly even Barack Obama – might wish the US to take on such a role, the chances of its doing so appear slim. Many Americans are focused on their economic problems and think their leaders should spend less time worrying about global issues. Even though the Tea Party movement does not control the Republican Party, it is pushing many Republicans towards introspection. Few Americans seem bothered by the failure of the Doha round, their non-involvement in the emerging institutions of climate change governance, or the declining utility of the G20.

America's reluctance to be involved in international institutions, of course, is nothing new. Many Europeans have forgotten that when



Bill Clinton was president, they found American unilateralism on issues such as climate change and arms control hugely annoying (Clinton supported the Kyoto Protocol, the Comprehensive Test Ban Treaty and the International Criminal Court, but knew that he could not get any of them through the Senate).

However, notwithstanding the election of Barack Obama in 2008, the US may be becoming more unilateralist rather than multilateralist. Obama started out with a strong commitment to international co-operation but after some jarring experiences, such as the Copenhagen climate change summit in December 2009, appeared to become disillusioned. He does not talk about multilateralism – and if he did, would probably lose votes. The Libyan war, in which the Americans supported NATO logistically but left Britain and France to lead the bombing, may signal how little the US will wish to engage internationally in the future, at least in some parts of the world. The focus of US foreign policy, increasingly, is the Middle East and Asia, with an emphasis on bilateral relations.

Optimists on global governance suppose that when the US sees it is becoming relatively weaker, it will become more enthusiastic for binding international rules, out of self-interest: such rules could constrain the freedom of manoeuvre of China and other rising powers. But while the US is likely to remain more-or-less internationalist – it has too many global interests for isolationism to be a viable policy – there is scant evidence that the country is becoming more sympathetic to multilateralism.

Pessimists can argue that the US has less need of strong global institutions than any other leading power. Its neighbours are benign democracies and it will remain the world's number one military power for the foreseeable future. Its economy is not particularly vulnerable to climate change and it has many of the natural resources that it needs. The American economy is less dependent on foreign export markets than that of China. Of course, the economy

has become increasingly integrated into the global system, and the US benefits from multilateralism in all sorts of ways. But that is not self-evident to many Americans.<sup>71</sup>

<sup>71</sup> Philip Stephens, 'How a self-sufficient America could go it alone', *Financial Times*, January 13<sup>th</sup> 2012.

None of this bodes well for global governance. As long as the US fails to sign up to the International Criminal Court and the Ottawa Convention, or to ratify the Comprehensive Test Ban Treaty, persuading Russia and China to do so will prove very hard (though Russia has ratified the CTBC). The Europeans, by contrast, have joined all the governance regimes listed in Table 2 (see page 16). They are instinctive believers in the virtues of multilateralism, having spent the past 60 years trying to build various sorts of supranational institution.

For all its many problems, the EU has the potential to make a big difference to global governance. It is the world's largest economy. It provides more than half the world's overseas development assistance. It has been an influential player in the UN-led talks on climate change. And Europe still has soft power: its relatively egalitarian societies, political stability, cities and culture are admired across the world. Other regional organisations, such as Mercosur and ASEAN, admit they are pale imitations of the EU and sometimes make explicit attempts to copy what the EU does. The Europeans punch above their weight in the UN. And they work hard – often quietly and modestly – to make a wide range of international organisations function smoothly.

But even though the Europeans understand the multilateral system, and sometimes have ideas on how to improve its workings, their current weakness impedes their ability to lead and shape it. Europe underperforms as a global power, relative to its economic weight. Much has been written on the EU's problems, and this is not the place for a detailed analysis.<sup>72</sup>

<sup>72</sup> Among other things, see Charles Grant, 'Is Europe doomed to fail as a power?' (with a response by Robert Cooper), CER essay, July 2009; and Charles Grant, 'Nothing to celebrate', *Foreign Policy*, January 4<sup>th</sup> 2012.

The euro crisis, and the inability of Europe's leaders to fix it after two years of emergency summits and 'solutions' that turn out to be too little, too late, is hugely damaging to Europe's reputation. So is its congenitally low levels of economic growth. Nor does it help that the Europeans are sometimes divided on foreign policy, including towards Russia and China, or that the External Action Service, the embryonic EU foreign ministry, does not yet function well. The Europeans' shrinking armed forces, and their disagreements over whether and when to use force – as happened with the Libya operation – do nothing to enhance their reputation, either. If Europe could find a solution to the euro crisis, develop more coherent foreign policies (especially in its neighbourhood) and improve its military capabilities, it would be much better placed to shape the international system.

In the meantime, the EU must do its best with what it has got. It has a clear interest in convincing the emerging powers that that they would benefit from strong global rules. But it needs a clearer strategy in pursuit of that objective.

### Europe's partnerships with the BRICS

<sup>73</sup> *The ten are Brazil, Canada, China, India, Japan, Mexico, Russia, South Africa, South Korea and the US.*

The EU has 'strategic partnerships' with ten countries, but that is a misnomer.<sup>73</sup> A real strategic partnership, such as that between France and Germany, or Britain and the United States, involves partners doing things

that they do not want to do, for the sake of the overall relationship. And a truly strategic partnership should be focused on a few, key issues. But the EU's strategic partnerships are technocratic, entailing discussions on many dozens of social, economic, technological, scientific and environmental issues. They seldom address subjects that are salient to many people. The Europeans' relations with Russia, China and other BRICS would be more productive if they tried to refashion the partnerships to respect five principles.

### *Highlight the benefits of global governance*

Whatever the subject under discussion, the EU should highlight how openness, global rules and multilateral institutions can deliver benefits. It should make this argument not only on trade, investment and climate, but also for challenges like proliferation, cyber-attacks and pandemics. The Europeans should encourage the BRICS to become responsible stakeholders, even if that particular phrase has a condescending ring. They need not sound condescending if at the same time they urge the emerging powers to play a role in setting new rules.

The Europeans should of course avoid a patronising tone when dealing with partners. When they disagree with a partner they should say so clearly, but avoid a preachy tone. The Americans may find it even harder than the Europeans to get the tone right, which may occasionally be advantageous to the latter.

The EU's case will be more persuasive if it practices what it preaches and stays true to its values of openness. Even when the Europeans' economies are in recession, they should keep their markets open. If Europeans want to punish China for what they consider to be unfair trade practices, they should launch a complaint in the WTO rather than take unilateral measures. The US Congress is threatening to sanction China because of alleged currency manipulation, but such unilateral sanctions may breach WTO rules. The Congress has also imposed 'countervailing duties' on exports from China and Vietnam, in response to allegedly illegal subsidies, on top of anti-dumping duties on the same goods. In December 2011 a federal circuit court ruled the countervailing duties illegal. The EU should shun that kind of protectionism and stick to the rules.

### *Focus each of these relationships on a few, key subjects*

When the EU deals with Russia, it should do what it can to promote economic modernisation. Towards that end, the Europeans have worked hard to get Russia into the WTO – a target achieved at the end of 2011. But there is a limit to what Europeans can do: whether

or not Russia undertakes the reforms that its economy so desperately needs depends on decision-makers in Moscow. ‘Modernisation partnerships’ with European countries and companies are unlikely to achieve a great deal if focused mainly on technology transfer and the creation of oases of innovation within Russia, as has been the case so far. These partnerships would be more powerful if they did more to improve the business environment and the rule of law within Russia.

One key subject for an EU-Russia partnership should be a more constructive dialogue on energy. Most of Russia’s gas exports go to the EU, which in turn depends on Russia for 40 per cent of its gas imports. Tensions in the energy relationship are inevitable: Russia has an interest in high prices and long-term fixed-price contracts, but many Europeans do not; Russia dislikes EU rules on ‘unbundling’ that prevent Gazprom from owning pipeline networks in the EU; and Russia is backing the South Stream pipeline project as a rival to Nabucco, which most EU member-states support.

But the two sides need a dialogue in which they can discuss these issues, and other matters, such as how the EU can help to promote energy efficiency in Russia, or the rules that apply to foreign investors in Russia’s energy sector. One difficulty with such a dialogue is that the Europeans have different interests and positions on several of these questions; some of the member-states that are more dependent on Russian gas, such as Germany, tend to be more sympathetic to the Russian viewpoint.

A second prong of the EU-Russia partnership should be regular talks on their common neighbourhood. The member-states find it easier to agree on this subject than on energy, but it is sensitive for Moscow. Few Russians see any good reason for the EU to be involved in this part of the post-Soviet space. Vladimir Putin is making a priority of pulling Ukraine into what he has termed a Eurasian Union.

Europe’s interests and values dictate that the sovereignty and independence of Belarus, Moldova and Ukraine, plus the three states

of the southern Caucasus, should not be eroded. In fact both the EU and Russia have an interest in these countries being economically successful and politically stable. But though geostrategic rivalry in their neighbourhood is probably inevitable, they should discuss the region more often, so that each is aware of the other’s red lines; encourage each other to act transparently; and consider scope for collaboration, for example in aiding Ukraine’s economy.

As for China, the EU’s main objective should be achieving a better environment for foreign companies operating in the country: fewer constraints on investment, better protection of intellectual property, more open public procurement and less discrimination in favour of domestic firms. The EU has been making these points for many years, but to no avail. If Beijing showed some flexibility on these points, not only foreign investors would gain: more competition and protection of IP would help the Chinese economy to modernise. The EU should also encourage Chinese firms to invest in the EU. The more the Chinese invest overseas, the better they will appreciate the benefits of global rules that protect investments.

A second priority should be encouraging the Chinese to take the risk of nuclear proliferation more seriously. The EU should urge China to cease transferring nuclear technology to Pakistan and make a bigger effort to dissuade North Koreans and Iranians from pursuing their nuclear programmes. Britain, France, Russia and the US could encourage China to be more transparent about its own nuclear weaponry, and also to join both the Proliferation Security Initiative and the Global Partnership against the Spread of Weapons and Materials of Mass Destruction.

### *Stay united and work with like-minded countries*

Moscow and Beijing are masters at exploiting divisions among Europeans, and thereby weakening the EU’s clout. On Russia, the Europeans divide over energy policy and human rights. On China, they divide over trade protection and human rights. For example, the Southern Europeans generally care the least about human

rights in China, and refuse to meet the Dalai Lama. Most North European governments meet him in one way or another – sometimes incurring punishments from the Chinese. If the Europeans could agree on a common set of principles – such as agreeing to meet the Dalai Lama, but not in official buildings – China could not so easily pick on individual countries. The Southern Europeans have also been more willing than the northerners to support protection against Chinese imports. But

<sup>74</sup> François Godement and Jonas Parelo-Plesner, 'The scramble for Europe', ECFR policy brief, July 2011.

over the past year, as Greece, Spain and Portugal have sought to encourage Chinese direct investment and purchases of government bonds, they have taken a softer stance on EU-China trade disputes.<sup>74</sup>

Common policies will not always be feasible for Europe's relations with such important countries as Russia and China. But common messages should be. If each EU minister or official visiting Beijing and Moscow pushed similar priorities, it would make an impact. There should also be more consistency between member-states and EU institutions. National capitals tend to avoid talking about human rights, for the sake of their commercial relations with Russia or China, leaving EU institutions to raise the subject.

When the Europeans work together they may not succeed in achieving their objectives. But as a leading French scholar has written: "The key to a global China policy is...to work with other

<sup>75</sup> François Godement, 'A global China policy', ECFR policy brief, June 2010.

countries to assemble coalitions to increase Europe's leverage over China."<sup>75</sup> The Europeans are starting to get this point. The EU and the US have collaborated in several WTO cases against China. In 2010 the EU, US and Japan jointly urged the Chinese to amend the 'indigenous innovation' law, which threatens the intellectual property rights of foreign investors. In the same year, when the EU and the US were trying to persuade China to accept more UNSC sanctions on Iran, Saudi Arabia proved a useful ally.

### *Be prepared to bargain*

The EU finds it hard to get tough with other powers. But on issues where the member-states are united, the EU should be more willing to make

political trade-offs. For example, Beijing wants the EU to award it 'market economy status' – which would make it harder for the EU to impose anti-dumping duties, and which, as a WTO member, China will in any case gain in 2016. The EU should offer that status in return for significant progress on rights for foreign investors in China. The EU should also consider China's other longstanding demand, that it lift the arms embargo imposed after the killing in Tiananmen Square – but only in return for signs of significant and irreversible progress on human rights, including a large-scale release of political prisoners.<sup>76</sup>

<sup>76</sup> For many years the US has worried that a lifting of the EU embargo could lead to a surge of arms sales to China. However, in 2008 the EU revised its code of conduct on arms sales. This applies to all countries, not just China. European diplomats believe that if the embargo was lifted, the code would prevent significant sales of arms to China. Pentagon officials disagree.

Bargaining should not lead to protectionism. Some of those who call for more 'reciprocity' imply that unless China does more to open its markets, the EU should start to close some of its own. But curbing trade is not in anyone's interests. If the Chinese are unhelpful, the most the EU should do is apply its own laws strictly, for example by clamping down on illegal Chinese imports (there is a problem with goods that purport to be made in the EU that are in fact made in China).

There are a few signs of the Europeans becoming more willing to bargain. In 2010 Russia asked for a new EU-Russia foreign policy committee to discuss security questions. Chancellor Merkel said that she would support the idea – if Moscow helped to resolve the Transnistria conflict. At the time of writing the conflict remains and the committee does not exist.

### *Talk about human rights but do not make the partnership dependent on them*

The EU has very little ability to influence the political systems in Russia and China. It needs to discuss a host of issues with both

governments, however much one or the other may mistreat its citizens. The EU should always criticise bad behaviour, making clear that the abuse of human rights will affect the quality of the relationship. But the Union should keep talking and trading. In both Russia and China, the EU may achieve more by focusing on the rule of law rather than the most sensitive human rights cases. For example, in both countries the EU has supported programmes that train judges and prison officers.

The EU should remind the Russians that greater respect for the rule of law would encourage FDI and entrepreneurialism in their country. Such talk need not necessarily cause offence; after all, Medvedev has often spoken of the need to strengthen the rule of law in Russia. And when Europeans discuss human rights with the Chinese government, they should focus on its failure to comply not only with international rules – China has signed but never ratified the UN Convention on Civil and Political Rights – but also with its own domestic laws, which on paper make practices such as arbitrary arrest illegal.

Even an EU that is economically troubled and politically divided will have a big impact on the emerging multipolar order. So, too, will the US, whatever its views on international institutions. But the way that China, Russia and other emerging powers evolve will be crucial in determining how the international system develops.

## 6 The future of Russia, China and global governance

### How will Russia and China change?

In the past few years, China has become more strident in asserting its national interests, and Russia, at least since its war with Georgia in 2008, rather less so. These trends, if real and long-lasting, will have implications for global governance.

Some feared that the war with Georgia would signal the start of a new, more nationalistic period of Russian foreign policy. But that did not happen. Although the war involved the illegal conquest of territory and the death of more than 600 (mostly Georgian) people, it may have helped Russians to overcome a complex of weakness, decline and failure. “The Georgia war was not the start of a new Russian expansionism, but the end of 20 years of geopolitical retreat, so it was important psychologically,” says Fyodor Lukyanov. “The war and the economic crisis accelerated the change towards a calmer Russian foreign policy.”<sup>77</sup> That appears to have been the case, though at the end of 2011, during the Duma elections and the street protests, Putin and the state media raised their anti-American rhetoric. <sup>77</sup> *Speech to a CER conference, London, February 16<sup>th</sup> 2011.*

The oil price is very important for what happens in Russia. So long as the price stays high, the people running the country are unlikely to be enthusiastic about shaking up the economy so that it shifts from raw material exports towards manufacturing and services. Burgeoning oil revenues take away the urgency of reform. In any case, a restructured economy would threaten the privileged position of the clans that hold political power and benefit financially from natural resource industries.

The more liberally-minded figures in the Russian system would like to strengthen the rule of law, improve the conditions experienced by foreign and domestic investors, and engage in global economic governance, all of which would speed up change within Russia. But they will find it hard to win many arguments without a prolonged period of low oil prices. At the time of writing, with oil prices above \$100 a barrel, life is too good for the Russian elite.

In the long run, there may be some cautious grounds for hope. The oil price may not stay high indefinitely. And there is already a consensus among serious analysts and officials that whatever the oil price, Russia needs to change the way it runs its economy. Their arguments for a more diversified, business-friendly economy are compelling. Medvedev's decision in April 2011 to ban Kremlin officials from holding top positions in state enterprises was a minor change, but Putin's approval of WTO membership in December 2011 was important. This suggests that another Putin presidency would not be incompatible with further reform.

The anti-government demonstrations in the winter of 2011-12 may make some sort of reform, however hesitant and piecemeal, inevitable. Large parts of the young, urban middle class have become very cynical about Russia's rulers and the power structures they control. These Russians communicate via the internet and social media, and may not watch state-controlled television. How Putin chooses to respond to their demands for political reform will have a crucial impact on Russia's future. If he tried to clamp down hard, provoking more domestic and foreign criticism, thereby fuelling nationalist paranoia, there would be a risk of political instability and the economy would suffer. The Russian state would become more introverted and a less constructive participant in international institutions. But if he allowed some serious reforms to pass, the protest movements might lose steam, the economy could benefit and Russia's relations with the West would be smoother. Some fairly minor

reforms have been unveiled: in January 2012, Putin announced the restoration of direct elections for provincial governors.

It seems that something has changed in Russia, perhaps irrevocably, and that a hard clampdown is therefore unlikely. But Russia's leaders face a difficult dilemma:

To leave things as they are means steady decline and ultimate fall, even in the leadership's own lifetime; to start changing things in earnest entails the risk of losing control, power and property. They may want to be Peter [the Great] but are afraid to end up like Gorbachev. So for the time being they act like Brezhnev.<sup>78</sup>

<sup>78</sup> Dmitri Trenin, 'Post-Imperium: A Eurasian story', *Carnegie Endowment*, 2011.

Internal politics is not the only driver of change in Russia. Fear of China's rising power is growing in Moscow. That is one reason why Russia has been relatively soft towards the Americans and the Europeans since its war with Georgia. In early 2012 it was unclear whether the Moscow-Washington 'reset' would endure, but it would be in Russia's interests for it to do so.

If Putin and his entourage become convinced that structural shifts in Russia's economy would enhance its power and influence in the world, they may swallow significant doses of reform. Russia's leaders need to decide what kind of country and economy they want. If Russia chooses to be part of the West, it is more likely to be constructive on global governance in the long term.

While there are tentative reasons to believe that Russia may engage more actively in global governance in the future, the trend in China could be in the reverse direction. The view of Indians, South-East Asians, South Koreans, Japanese and many Europeans – as well as some Russians – is that China has become more difficult to deal with in the past few years. This stems, in part, from greater self-confidence. The financial and euro crises have made some Chinese

think that the West is weak, and that it no longer has the right to give them lectures. The influence of new actors in foreign policy, such as oil and mining companies and industrial lobbies, as well as muscle-flexing from an old actor, the PLA, may also explain some of the increased assertiveness. So, too, does the nationalist rhetoric that blows through the blogosphere. And then there is the transition to the new generation of leadership in 2012. Party leaders worried about where they will end up in the new hierarchy do not want to be seen as soft on foreigners.

Overall policy on the biggest issues is set by the Communist Party of China. But Western and Chinese observers have speculated that over the past few years no single individual or committee has been truly in charge of foreign policy.<sup>79</sup> If so, that could explain why so many words and actions coming out of China have been contradictory and sometimes provocative.

<sup>79</sup> *The Economist*, 'Great disorder under heaven', *Banyan column*, December 16<sup>th</sup> 2010; Wang Jisi, 'China's search for a grand strategy', *Foreign Affairs*, March/April 2011.

In early 2012 it is not entirely clear whether China is maintaining its more strident line. In the first half of 2011, China's leaders made efforts to improve relations with Washington, New Delhi and – after the tsunami – Tokyo. But in June, Vietnam accused Chinese vessels of damaging its ships in the South China Sea, and the Philippines complained of Chinese harassment of its boats (in the Chinese blogosphere, those incidents led to demands for military strikes against Vietnam and the Philippines – postings that were not censored). In October Japan claimed that it had had to scramble fighters to intercept Chinese warplanes near its airspace more than three times as often between April and September 2011 as during the same period the previous year. It also complained about growing numbers of Chinese submarines close to its coast.

If the trend towards greater assertiveness continues, it will not only push some of China's neighbours into a stronger alliance with the US, but also augur ill for global governance. China may become a practitioner

of Rumsfeldism, viewing slow-moving international institutions as an unwelcome constraint on its freedom of manoeuvre. China may try to get what it wants by acting unilaterally or with a band of allies or by bullying smaller countries to comply with its wishes.

However, within the Chinese system there are many people who take a different view and think that China has no choice but to integrate into global economic and political systems, while refashioning them to China's advantage. China continues to host many foreign investors, accept WTO panel rulings and work with Western powers – however grudgingly – on issues like Iran, North Korea and Sudan. For now, the engagers, who want to limit antagonism between China and the West, still have clout.

The ways in which the international system and the Chinese economy are evolving may support the arguments of the engagers. Wang Jisi, Dean of the School of International Studies at Peking University, writes that the Chinese government's understanding of security is broadening beyond traditional military affairs and an emphasis on specific countries; it now includes issues such as the stability of financial markets, terrorism, the environment, food safety and non-proliferation. This pushes China to be more active in multilateral institutions.<sup>80</sup>

<sup>80</sup> Wang Jisi, 'China's search for a grand strategy', *Foreign Affairs*, March/April 2011.

Ultimately, the Chinese leadership's success – or not – in managing the transition to a more modern economy, society and political system will have a big impact on the country's stance on global governance. If the leaders failed to manage a smooth transition, and if the country experienced a period of chaos, global governance would probably suffer. An insecure leadership would be more paranoid and less trusting of foreigners.

Despite China's tremendous economic success, Prime Minister Wen Jiabao has repeatedly described its economic model as "unstable, unbalanced, unco-ordinated and unsustainable". The economy needs to

rebalance towards greater consumption, which is currently only about a third of GDP – very low by international standards. Conversely, investment levels, at about 60 per cent of GDP, are very high. Too much of that investment is in property speculation. State-owned enterprises and other favoured firms get cheap credit, but most private firms struggle to obtain bank loans. Savers receive interest rates that are far below the rate of inflation. The CPC influences many banks' decisions on loans, which leads to the misallocation of credit and much wasted investment.

If the government created a better social safety net, people would have the confidence to spend more. And a revaluation of the currency would help rebalancing: cheaper imports and less inflationary pressure would boost consumption. China also needs to use energy much more efficiently and curb pollution. The 12<sup>th</sup> five-year plan shows that the government understands these points and that it wants rebalancing. But the previous five-year plan also called for rebalancing, without achieving very much.

The vested interests opposed to reform – sometimes powerfully represented in the CPC – will do their best to block change. Since the financial crisis struck in 2008, the role of the state in the economy has in many respects grown. Will the new generation of party leaders have the clout to push through controversial but essential reforms, so that the economy can maintain a fairly strong rate of growth? If they fail to do so, and Chinese growth slows significantly, serious social and perhaps political tensions will afflict China. And then the engagers would win fewer arguments.

<sup>81</sup> See Bobo Lo, *Ten things everyone should know about the Sino-Russian relationship*, CER policy brief, December 2008; and Dmitri Trenin, *True partners? How Russia and China see each other*, CER report, February 2012.

### Russia-China relations

This report is not the place for a detailed analysis of the Russia-China relationship.<sup>81</sup> However, some brief observations are relevant to the role of those two powers in global governance. Relations between Moscow and Beijing are the best they have ever been. Trade is booming. The two

armies engage together in SCO military exercises. In the UN and in other international forums, China and Russia support each other's opposition to liberal interventionism and to 'colour revolutions' in their neighbourhoods. Neither power likes being isolated on a big international issue, so they give each other cover in opposing the West on, say, human rights in Zimbabwe or the Iranian nuclear programme. In February 2012, China followed Russia in vetoing a UNSC resolution on Syria, not because it cared hugely about Syria, but because Russia did care and Beijing may want the favour returned one day. It suits them to contain and minimise their differences.

However, Russia and China both attach more importance to the West than to each other. In recent years, for example, some Russian leaders have started to talk about their country being part of 'Christian civilisation'. Foreign Minister Sergei Lavrov has said there are three Wests: the US, Europe and Russia. For centuries, Russians have been divided between those who think their country should look west and those who want to look east, but the former predominate.

The relative diplomatic importance that China attaches to the US and Russia reflects the difference in trade flows: two-way trade with the US was \$457 billion in 2010, but with Russia it was only \$62 billion. In private, many Chinese officials are dismissive of the Russians' ability to manage their economy.

The 'reset' between Russia and the US over the past few years has caused some concern in Beijing. Officials ask whether Russia's overriding need for economic modernisation may push it to be more accommodating to the West on geopolitical issues; they note that Russia has been tougher towards the Iranians since the reset began.

In Moscow, officials are anxious about the growing economic disparity between Russia and China. Any talk of China and the US establishing a 'G2 world' makes Russians nervous. Some Russian officials say there has been something of a 'reset' between Moscow



and Beijing in recent years, but they worry about how long it can be maintained. “This reset has been based on our accepting that we are no longer the senior partner, and their accepting that we won’t be a junior partner,” says a senior Russian official. “This is a partnership not an alliance, and it will work for five or ten or possibly 20 years, but it will be hard to maintain that equality if our economy continues to grow more slowly.”

In public, the Russians say that relations are good (as the Chinese always do). But in private, some of them fear that the growing asymmetry may mean that China ceases to treat Russia as an equal partner in Central Asia, on the Pacific rim, on energy relations or

<sup>82</sup> Bobo Lo, ‘Ten things everyone should know about the Sino-Russia relationship’, CER policy brief, December 2008.

on global security issues. According to the scholar Bobo Lo, “Russia will become increasingly peripheral to Chinese interests, a marginalisation it will resent strongly.”<sup>82</sup>

Despite these tensions, Russia’s and China’s attitudes to global governance remain quite similar. Those attitudes are, of course, shaped by their history and social and political development. David Shambaugh argues that the Chinese find it hard to be responsible stakeholders because their political culture is Hobbesian. “Most Chinese believe they live in a highly unpredictable and predatory domestic environment.” This view extends to the international system, where many foreign powers are ready to take advantage of China. “Trust is at a minimum – and therefore, in the Chinese worldview, collective action cannot possibly be based on common ideals or values.”

Another distinguishing trait of China, writes Shambaugh, is the central role played by *guanxi* (reciprocal obligations) in Chinese society. Trust is low, so people do each other favours. “Corruption will never be

<sup>83</sup> David Shambaugh, ‘China goes global: The partial power’, Chapter 4, Oxford University Press, forthcoming.

controlled or eliminated in China, because Chinese expect business to be done on the basis of favouritism and personal ties. [So] there is no such concept as ‘public goods’ – the key to global governance. Everything is bartered all the time.”<sup>83</sup>

Shambaugh’s description is apt, but countries evolve over time. In many respects British politics in the 18<sup>th</sup> century operated on a system of *guanxi* – but it changed. Wang Jisi is optimistic about the evolution of Chinese values. He points out that traditionally, China’s leaders have talked about co-operation with other countries based on shared interests rather than values. But now that they care about the country’s image and soft power, he thinks, “it appears necessary to also seek common values in the global arena, such as good governance and transparency”. He thinks that domestic problems such as corruption and unrest could “reinforce a shift in values among China’s political elite by demonstrating that their hold on power and the country’s continued resurgence depend on greater transparency and accountability, as well as a firmer commitment to the rule of law, democracy and human rights, all values that are widely shared throughout the world today.”<sup>84</sup>

<sup>84</sup> Wang Jisi, ‘China’s search for a grand strategy’, *Foreign Affairs*, March/April 2011.

Much of what Shambaugh writes about China also applies to Russia: the Hobbesian world view, the lack of trust, the corruption and the exchange of favours. But having been historically, geographically and culturally closer to the West, and a major player in concert diplomacy for the past two hundred years, the Russians are a little more comfortable with the concept of global public goods.

### The need for greater global governance

This report has mostly dealt with those aspects of global governance that cover economics and security. Those who are optimistic about the future of global governance tend to focus on economics. One such scholar is John Ikenberry, a professor at Princeton University. He believes that for China and other non-Western powers, the road to modernity runs through – not away from – the existing international order.

[They] do not want to contest the basic rules and principles of the liberal international order; they wish to gain more

authority and leadership within it. Indeed, today's power transition represents not the defeat of the liberal order but its ultimate ascendance. Brazil, China and India have all become more prosperous and capable by operating inside the existing international order – benefitting from its rules, practices and institutions, including the WTO and the newly organised G20.

Given the emerging problems of the 21<sup>st</sup> century, there will be growing incentives among all the great powers to embrace an open, rule-based international system. In a world of rising economic and security interdependence, the cost of not following multilateral rules and not forging co-operative ties

<sup>85</sup> John Ikenberry, 'The future of the liberal world order', *Foreign Affairs*, May/June 2011.

goes up. As the global economic system becomes more interdependent, all states – even large, powerful ones – will find it harder to ensure prosperity on their own.<sup>85</sup>

Let us hope that he is right. Revealingly, Ikenberry says less about security than economic governance. Scholars who focus more on foreign and defence policy tend to be more pessimistic. One of these is Robert Kagan, an American commentator and historian.

Power changes people, and it changes nations. It changes their perceptions of themselves, of their interests, of their proper standing in the world, of how they expect to be treated by others. That is why the rise of great powers throughout history has so often produced tensions in the international system, and even great wars...The French, Spanish, Russians, Germans, Americans and Japanese – all struggled and fought with varying degrees of success to open space for themselves in the world as befit their growing economic and military power, and to shape the world in accord with their perceived interests and their beliefs.

China's ambitions, its desire for strategic independence, its growing sense of its own importance, its concern for status

and honour, and the military build-up that it is undertaking to establish and defend its new position in the world are the actions not of a post-modern power, or of a status quo power, but of a most traditional and normal rising power....History suggests that as China grows more confident it will grow less, not more tolerant of the obstacles in its path.<sup>86</sup>

<sup>86</sup> Robert Kagan, 'The return of history and the end of dreams', *Atlantic Books*, 2008.

Kagan has often compared East Asia today to Europe in 1914 – when a lot of clever people thought that the web of economic ties among European nations would make a continental war impossible. However, the world is more interconnected today than it was then. China's leaders understand that economics is not an entirely zero-sum game and that their country would suffer from a serious conflict.

Politics is becoming ever more national yet the need for global governance has never been so great. Existing threats, such as the proliferation of nuclear materials and pandemics, remain worrying. New threats and problems are emerging that cannot be tackled effectively by nation-states, such as cyber-attacks, debris in outer space and global warming. The inability of the EU and the US to overcome their debt crises and grow smoothly is harming the global economy. So are global current account imbalances and unilateral currency policies. Yet international economic co-operation is achieving little.

The EU is the best scheme yet devised to bridge the gap between the reality of politics being national and the necessity of international co-operation. But Europe has been weakened by its economic travails which, like the growth of political populism, constrain its ability to play an active role in global governance. The same applies to the US.

Meanwhile the BRICS are too coy, suspicious of the concept and divided among themselves to take on the mantle of steering the international system. The world is suffering from a governance gap.

That is why analysts such as Ian Bremmer of the Eurasia Group talk of a “G zero world”.

The key question for the future of global governance is this: “How successfully and quickly will rising powers respond to the challenge

<sup>87</sup> Gregory Chin and Ramesh Thakur, ‘Will China change the rules of global order?’, *The Washington Quarterly*, October 2010.

of changing from being free-riders to stewards of the global order?”<sup>87</sup> The implication of Zoellick’s famous call for China to be a responsible stakeholder, according to Shambaugh, is that it should move beyond mere institutional integration to “truly absorb norms and thus take on new identities where behaviour is based on value-based orientations, not rational cost-benefit calculations.”<sup>87</sup> The same could be said of Russia.

<sup>88</sup> David Shambaugh, ‘China goes global: The partial power’, Chapter 4, *Oxford University Press*, forthcoming.

The BRICS tend to find such Western views patronising. And the phrase ‘responsible stakeholder’ grates with many Chinese academics and officials. Being ‘responsible’, they think, means doing what the West says.

Although China, Russia and other non-Western powers are more and more involved in international institutions, they remain ambivalent about them and mistrustful of Western calls to engage in global governance. They still see the global system as unfair and unequal, and think it should be reformed so that non-Western countries are given a bigger voice.

Russia and China will focus on both their bilateral relations with the US, and global institutions, but they will need to decide whether their interest in the former leaves much room for the latter. If India, Brazil and other emerging powers become significant geopolitical players, Beijing and Moscow are more likely to take multilateralism seriously. And, as the previous chapter argued, the actions and words of the US and the EU will also be hugely important in shaping Russia’s and China’s choices.

A stronger Europe could tip the whole international system towards multilateralism. But the international environment may have to deteriorate before Europe is spurred into action. At the moment, too many Europeans believe that they live in an essentially safe and benign world. If emerging powers start to bully or blackmail the Europeans, or deploy force in their neighbourhood; if the US becomes much more isolationist; or if summits of the BRICS start to take decisions on key issues that affect Europe, the European states may see the virtues of co-operating more closely on their external policies. At least, in a rational world they would do so. But Europe could not rise to such a challenge without more strategic and visionary leaders than it has today.

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# **RUSSIA, CHINA AND GLOBAL GOVERNANCE**

**Charles Grant**

The global order is becoming ‘multipolar’ – but will it be multilateral, with strong international rules and institutions, or will balance-of-power politics prevail? Charles Grant argues that the attitudes of emerging and re-emerging powers – and in particular the two with nuclear weapons, seats on the UN Security Council and undemocratic political systems – will be crucial. Russia and China are suspicious of multilateral institutions created by the West, and hostile to anything that could justify external intervention in a sovereign state’s affairs. But both are learning to use international forums to their advantage. The difference between them is that while Russia takes international security regimes seriously, China does not; and that while China is keen to engage in global economic governance, Russia is not. Grant concludes by analysing how trends within Russia and China may shape the future of global governance.

Charles Grant is director of the Centre for European Reform.

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