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Russia's International Activity in Response to the Global Financial Crisis

by Jarosław Ćwiek-Karpowicz

Russia has striven to exploit the global financial crisis to bolster its international position. The building of an international coalition of developing states, which Russia wants to head, is a means to that end. Among other things, the Russian authorities have championed new regional powers' increased participation in international financial institutions, at the expense of the U.S. and other Western state. These efforts of the Russian Federation are laden with the risk of failure, primarily because of the Russia's weak economic potential and vastly diverse interests of the prospective coalition members.

This June Russia launched a major push on the international forum. Representatives of global business, science and politics had an opportunity to exchange views during the St. Petersburg International Economic Forum (4–6 June) dubbed "a Russian Davos." Several days later Moscow hosted a summit of the Collective Security Treaty Organization (CSTO) and a meeting of the Interstate Council of the Euro-Asian Economic Community (EAEC)—two foremost (from Russia's perspective) initiatives to reintegrate the post-Soviet area. From there, the leaders of China, Russia, India, Brazil, Pakistan, Afghanistan and the Central Asian states met in Yekaterinburg (16–17 June) at Shanghai Cooperation Organization (SCO) and Brazil–Russia–India–China (BRIC) summits.

A majority of these meetings were attended by Russian President Dmitry Medvedev whose addresses were focused on international financial crisis issues and on the need to overhaul the international financial system. As another high point, in St. Petersburg the Russian Minister for Economic Development Elvira Nabiullina and the EU Trade Commissioner Catherine Ashton both declared that by the end of the year Russia would have successfully completed negotiations on its membership in the World Trade Organization. Yet several days later Prime Minister Vladimir Putin announced that the Russia was withdrawing from these talks, to form a custom union with Belarus and Kazakhstan and to commence, together with these countries, negotiations on new terms of WTO accession.

Major Aims and Postulates. The sequence of those Russia-organized meetings seems anything but random. The Russian side first tried to probe the prospects of financial and economic cooperation with Western states, as evidenced by the promise of expedited WTO accession negotiations. Then Vladimir Putin's declaration on the eve of the meeting of the SCO and BRIC member states' leaders signaled Russia's unwillingness to work with the EU and the U.S. towards overcoming the crisis. This is the first time since the rallying of the anti-U.S. group of states in response to the Iraq war that Russia has attempted to form a coalition against U.S. interests. This time the financial sphere is the target and Asian and South American states with largest economies are Russia's intended allies. The objects of a coalition like that would be to limit the U.S. dollar's share in international trade and in individual states' currency reserves and to strengthen the developing states' position in the global financial institutions, in particular in the International Monetary Fund and the World Bank.

Russia believes that the first objective can be achieved by increasing the share of the SDR (Special Drawing Rights), an international unit of account, in the currency reserves. Still before the SCO and BRIC summits Russia unveiled its plan to diversify its own currency reserves and to convert US$10bn into SDRs, as Brazil (US$10bn) and China (US$50bn) had done.

Russia has also urged the modification of the SDR valuation formula, but that might be possible only late in 2010. At present, the value of the SDR is a resultant of the value of the U.S. dollar (44%), the euro (34%), the Japanese yen (11%) and the pound sterling (11%). Russia wants to include in the basket other currencies. Moreover, President Medvedev proposed a new currency of account to be used in trade among the SCO members—possibly similar to the non-cash ECU, the predecessor of the euro.

Russia is drafting a proposal for changes in the IMF/World Bank system which most likely will be unveiled at this year's Istanbul session (6–8 October). The proposal will take into account a new distribution of votes in the Board of Governors that, presumably, will reduce the voting power of the U.S. (currently 16.77%) and some Western states, e.g. of the Netherlands (2.34%) and Belgium (2.09%) while giving more votes to China (3.66%), Russia (2.69%), India (1.89%), Mexico (1.43%) and Brazil (1.38%).

Internal and External Determinants. The Russians are aware of their own state's economic weakness. Unlike China, which will see its GDP grow 6.5% in 2009, Russia's GDP will plunge at least 7.5%. Russia's financial reserves accumulated at the time when exports of energy sources generated high revenues have been dwindling. At present these reserves are used to fill the budget deficit rather than to modernize the economy and develop individual industries. The Putin government, intent on maintaining social stability, has not cut spending—a policy which, given the protracted global recession, could aggravate Russia's economic predicament. Yet the Russian authorities have sought to take advantage of the financial crisis to strengthen Russia's position—at least in the post-Soviet area. To that end, they promoted the establishment of EAEC's anti-crisis fund (US$10bn) by contributing US$7.5bn to it. The number of post-Soviet states negotiating loan terms with the Russian Federation is rising, but the latter's capabilities are seriously limited. Russia needs the financial support of China which holds reserves of nearly US$2.000bn.

As it seeks to reduce the U.S.'s role in the global financial order, Russia has to cooperate with China. The renminbi is already becoming an important currency in international economic and financial relations. To date, the People's Bank of China has signed bilateral currency swap agreements with the central banks of Argentina, Indonesia, South Korea, Malaysia, Hong Kong and Belarus. Owing to these deals importers of Chinese goods can settle in RMB rather than in dollars. Russia has also been encouraging the Chinese government to liberalize the economy and to make the renminbi convertible. According to Minister of Finance Alexei Kudrin this is the shortest route to making the RMB a global reserve currency in ten years' time.

At the same time Russia is apprehensive of excessive growth of China's position and anxious to have it offset. To this end, it has been trying to coax other regional powers into joining a coalition. This, however, makes reckoning with interests of many states necessary (e.g. the success of the Russian concept of IMF/World Bank reform depends on securing as much as 85% member states' votes) which is not a part of Russia's foreign policy tradition. After the break-up of the USSR Russia has shown preference for bilateral relations—or those in which it has the whip hand. Such being the case, even though after the BRIC summit the Russian authorities have declared support for India's and Brazil's important roles in the UN, its resistance to the enlargement of the G-8 by China makes the sincerity of such declarations doubtful.

Conclusions. Russia scored an unquestioned success by bringing about the first BRIC summit and enhancing the SCO's stature in the region (the presence of the leaders of such non-SCO countries as Iran, India, Pakistan, Afghanistan, Sri Lanka and Mongolia). Yet a lasting coalition of developing states aimed against the U.S.'s financial interests is unlikely to develop—primarily because of the weakness of prospective coalition members' economic potentials. Moreover, not all these states are as anxious to undermine the U.S.'s position as Russia is, for they are linked with the American economy in varying degrees and they would rather the dollar remains the main currency of international settlements and domestic reserves. Besides, in the new coalition China would dominate—an undesirable development from Russia's point of view.

At the October IMF/World Bank session some developing states will probably obtain more votes in the Board of Governors. Russia stands to benefit from this owing to its June diplomatic activity. Yet this reform will not mean a radical change of the financial order, as that is unfeasible without cooperation from the U.S. and the EU states.