

# Russia's attempts to gain a status boost from the G20 chairmanship<sup>1</sup>

By Pavel K. Baev

## ■ Executive summary

Russia has invested great efforts in profiling its role as G20 chair and increasing international focus on this organisation. Moscow seeks to exploit this role to boost its international status and thus to prepare for a confident chairing of the G8 in 2014. The expectations for meaningful results from the September G20 summit in St. Petersburg remain low, but it will probably run smoothly and receive high marks for good organisation.

Acknowledging the diminishing relevance of energy security, Moscow has shaped the lengthy summit agenda around the key theme of "growth and jobs", focusing on the question of investments. The intention is to establish that Russia belongs not to the crisis-affected West, but to the group of dynamic "emerging powers". This proposition is weakened by the current slowdown of Russia's economy and the deterioration of the investment climate in the country, which has caused a sustained outflow of capital.

The St. Petersburg summit is intended to demonstrate the restored effectiveness of President Putin's political control. Political stability in Russia is nevertheless precarious. The authorities could try to suppress street protests in early September with disproportionate force. Moscow expects to harvest dividends from staging a problem-free summit, but Russia's economic weakness and accumulating political discontent could derail the "show".

## G20 background

On December 1st 2012 Russia assumed the rotating chairmanship of the G20, taking over from Mexico, and is planning to hold the next summit of the organisation in St. Petersburg on September 5th-6th 2013. The G20 has been in existence since 1999 as a consultation mechanism for finance ministers of the G7 (Canada, France, Italy, Germany, Japan, the UK and the U.S.) and 12 other states (Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea and Turkey), plus the head of the European Central Bank. In 2008, in response to the global financial crisis, the G20 was elevated to the level of heads of states and governments (plus the president of the European Council), holding its first summit in

Washington, DC on November 14th-15th of that year. This expanded group played an important role in managing the escalation of the financial/economic crisis in 2009, but after that its workings became less focused and rather incoherent, and the 2012 summit in Los Cabos, Mexico was by most accounts a low-key affair.<sup>2</sup> The institutional establishment of the G20 did not replace the G8, which continues to function as a "club" of the major democracies and "developed" economic powers, in which Russia remains an outsider. In 2013 the G8 rotating presidency was held by the UK, which very effectively hosted the summit in Lough Erne, Northern Ireland on June 17th-18th; Russia is due to take over the presidency in 2014.

<sup>1</sup> This report builds and elaborates on the findings of Baev (2013).

<sup>2</sup> A useful examination of the development of the G20 appears in Kharas and Lombardi (2012).

## Russian experience and Putin's expectations

Sparing no diplomatic effort, Russia has secured for itself a unique sequence of presiding over high-profile international organisations, starting with the Asia-Pacific Economic Co-operation (APEC) in 2012, continuing currently with the G20 and following in 2014 with the G8. What helps Moscow to perform the chairmanship role is the fact that in 2012 Russia completed the protracted process of accession to the World Trade Organisation and has since redoubled its efforts to join the Organisation for Economic Co-operation and Development (OECD).<sup>3</sup> Finally, the huge investments in preparing for the 2014 Sochi Winter Olympics are expected to generate rich dividends for Russia's international profile.

The key reference point for Russia's conceptualisation of the G20 chairmanship is the experience of presiding over the G8 in 2006, which is seen as having been remarkably successful in both cultivating ties with the key Western partners and representing the interests of emerging powers such as China, India and even Kazakhstan in this exclusive "club".<sup>4</sup> Characteristically, it is the Russian-U.S. high-level meetings (or non-meetings) in the back rooms of these summits that attract most media attention, including the one-hour meeting at the Lough Erne G8 summit and the planned extended talks between President Vladimir Putin and President Barack Obama before the G20 summit in St. Petersburg.<sup>5</sup>

The real achievements of such summits-within-summits are in fact below average, and Putin – while grasping every opportunity to show himself to be on par with his U.S. counterpart – attaches greater importance to presenting Russia as one of the dynamic emerging economies and not as a part of the "declining" West. He is, therefore, not particularly concerned about arguing from the minority-of-one position at the G8 table and presents this dissent as reflecting the interests of China and other upwardly mobile powers. Moscow, for that matter, seeks to advance the institutionalisation of the BRICS grouping more than other member states (Brazil, China, India and South Africa) in this proto-organisation, which held its first summit in 2009 in Yekaterinburg, Russia, and which Russia is going to preside over again in 2015. The complication in this posturing is that all the BRICS states as well as four of the so-called "Next 11" (Indonesia, Mexico, Turkey and South Korea) are represented in the G20, and so do not need

Russian intermediation to voice their opinions. While the increasingly pronounced authoritarian tendencies of Putin's new presidency have led to Russia's estrangement from the West, Russia's economic slowdown caused by the deteriorating quality of the governance provided by the deeply corrupt regime damages the country's reputation among the emerging powers, who are increasingly preoccupied with managing political instability.<sup>6</sup>

The most recent experience for the Kremlin is hosting the APEC summit in Vladivostok (September 8th-9th 2012), which was supposed to prove that Russia was an active and legitimate player in the Asia-Pacific region and was prepared to defend its interests (including in the disputes around usually minuscule islands). It was also meant to be a presentation of the dynamic Far East, rich with investment opportunities, but became instead an example of a modern-day "Potemkin village" in the depressed region.<sup>7</sup> Seeking to avoid the impression of staging another wasteful political "show", Moscow announced that the costs of the St. Petersburg summit would amount to a mere 5 billion roubles (\$165 million).<sup>8</sup> Nevertheless, the ambition is to turn the trend of the contraction of Russia's international influence around. A special website for the G20 chairmanship has been launched; its main feature is President Putin's special address on the subject, while each interview with him in which the topic is mentioned is duly recorded.<sup>9</sup> Russia profiled the G20 at the World Economic Forum in Davos in January 2013 and devoted much attention to its workings at the St. Petersburg Economic Forum in June.

## Setting the agenda and facing setbacks

Traditionally, the host country of the G20 summit (or, for that matter, the APEC or BRICS summit) performs the function of the secretariat of the organisation and so has a great deal of leverage for shaping the agenda according to its own preferences, while the success of the presidency depends on focusing on the issues that are of central importance to most members at that particular moment. Russia, therefore, faces the dilemma of whether to focus on the topics that will advance its own interests or concentrate on the problems that are of concern to the whole group. Moscow, for that matter, would have preferred to have energy security as one of the key themes (as it was at the 2006 G8 summit), but has to acknowledge that this issue has lost relevance for the U.S., while the majority of members are eager to maximise the benefits of the

3 In summer 2012 President Putin set the aim of Russia joining the OECD in 2014, thus strengthening the country's chairmanship of the G8; but speaking at the St. Petersburg Economic Forum in June 2013, he admitted that the work on harmonising internal legislation with OECD standards would require more time: "We are going about this calmly and steadily. I won't even try to name any specific date for our accession." See the official transcript at <<http://eng.kremlin.ru/transcripts/5633>>.

4 On that experience, see Baev (2009).

5 Putin opted not to attend the G8 summit in Camp David in May 2012 and Obama skipped the September 2012 APEC summit in Vladivostok, but the two leaders met briefly at the June 2012 G20 summit in Los Cabos. A balanced Russian view on the Lough Erne meeting appears in Lukyanov (2013).

6 On the ambivalence of Russia's position, see Anand (2012).

7 Grigori Potemkin was supposed to have built impressive-looking fake villages along the routes travelled by Catherine the Great to hide the poverty of these areas; thus a Potemkin village is an impressive facade or show designed to hide an undesirable fact or condition.

8 The immediate costs of chairing the APEC summit were estimates at 15 billion roubles, while up to 300 billion roubles (\$10 billion) were spent on construction projects in Vladivostok aimed at presenting an appropriate image for the summit; see Gazeta.ru (2012); on the new smaller bill, see *RIA-Novosti* (2012).

9 The English-language version is available at <<http://en.g20russia.ru/>>.

emerging “buyers’ market”.<sup>10</sup> Putin might also try to advertise his initiative on building the Eurasian Union, and the invitation to Kazakhstan to attend the summit is a means to that end.

The topic that fits perfectly into the G20 traditional agenda is regulating global financial markets, and Russia, as a state with minimal debt and huge reserves, is in a strong position to exploit this topic to its advantage. What makes this task more complicated is the absence of Aleksei Kudrin, who had the reputation of being one of the most efficient and influential finance ministers in the world, but refused to work in Dmitri Medvedev’s government and was fired in September 2011. His successor, Anton Siluanov, is competent, but does not have much clout, as became obvious at the meeting of G20 finance ministers in February 2013, where the prepared topic of competitive currency devaluations was sidelined by the urgent matters related to the Cyprus crisis.

Russia aspired to be an important part of the solution to the Cyprus insolvency and was eager to use this opportunity for proving its capacity to participate in managing the most difficult global financial problems.<sup>11</sup> The European Union (EU), however, saw Russia as a significant part of the problem, not only because of the latter’s unilateral decision to grant Cyprus a €2.5 billion loan in 2011, but also because of the extensive money-laundering schemes involving Russians and Cypriots, and so preferred to enforce a debt-restructuring deal that involved the painful taxation of bank accounts. The direct losses for the banks’ Russian customers were not that significant, but Putin was upset by the EU’s, and particularly the German’s, rejection of his offer to co-operate in organising a bailout, which in the big picture of money flow between Russia and the EU was minuscule.<sup>12</sup>

Disappointed at deteriorating relations with the EU and isolated in the G8, Putin is keen to explore the issues that divide the crisis-affected West and the emerging powers, even at the risk of fuelling acrimonious debates at the G20 summit. He has to acknowledge, however, that China and the U.S. prefer to work on their numerous disagreements bilaterally, without taking them to wider groups.<sup>13</sup> One issue that fits perfectly into Putin’s preferences is reform of the International Monetary Fund (IMF), but it has become clear since early 2013 that this issue is going nowhere, not only because the U.S. is abusing its prerogatives, but primarily because the BRICS countries are unable to forge a common position on the issue.<sup>14</sup>

## Playing it safe and scoring low

The most obvious and uncontroversial general theme for the G20 deliberations is reinvigorating global economic growth, and while the Mexican presidency focused on “green growth”, Russia prefers to downplay the eco-concerns and modify this theme as “growth and jobs”.<sup>15</sup> Putin’s sherpa, Kseniya Yudaeva, has achieved much success in bridging the divides between differing views on this issue, but this skilful mediation cannot hide the plain fact that Russia’s own economy has been slowing down and is facing the prospect of stagnation. Putin is deeply worried about this underperformance and has reshuffled the key economic positions in his administration and the government, but this cannot compensate for the absence of an economic strategy that combines modernisation and growth (see Petrov, 2013).

Taking the most obvious approach to the growth problem, Moscow has suggested discussing at length the issue of investments, which should allow it to smuggle in the usual proposition regarding plentiful investment opportunities in Russia. The problem with this plan is that the investment climate in Russia has deteriorated badly since the start of Putin’s new presidency and the net capital outflow (from which the EU directly benefits) was estimated at \$55 billion in 2012 and reached \$25 billion in the first quarter of 2013.<sup>16</sup> Russia’s sovereign credit ratings are lower than its healthy budget balance would indicate (BBB in the S&P list), and it remains in the second hundred of the World Bank’s “Doing Business” rating (see Edovina, 2013). Moscow is ready to incorporate into the agenda the hot issues of punishing tax evasion and enforcing greater transparency in tax havens, both of which correspond to Putin’s declared intention to reduce the circulation of Russian capital through offshore accounts.<sup>17</sup> What makes this intention to preside over the joint efforts aimed at combating illegal financial transactions rather odd is the evidence-based and widely shared perception that Russia is the most corrupt state in the G20 – and is the main source of dirty money laundered in the EU banking system.

Seeking to advertise its success in addressing social problems that bedevil many of the developed economies and have acquired an explosive character in Turkey and Brazil, Russia has added a meeting of ministers of labour to the agenda and has been hosting a variety of gatherings like “Youth G20” and “Business G20”. Most of these events are traditionally staged in order to shelter the G20 summit itself from activism of various kinds, and in Russia they are also supposed to demonstrate wide public support for

10 Russia hosted the summit of the Gas Exporting Countries Forum in July 2013, but nothing resembling a common position emerged from the debates, so Putin cannot assume the role of speaker for the producers; for pertinent reflections, see Kolesnikov (2013).

11 This angle of the Cyprus issue is examined in Medish and Lucich (2013), particularly on p. 21.

12 For a critical view of the EU’s handling of the Cyprus problem, see Karaganov (2013).

13 On the shifts in U.S. financial policy, see Busvine (2013).

14 A useful examination of this issue is given in Council on Foreign Relations (2012).

15 See the interview with Kseniya Yudaeva in *Kommersant* (2013).

16 On the long slump in investment activity, see Bashkanova (2013).

17 The scope of the circulation of Russian funds through Cyprus is examined in Ledyeva et al. (2013).

Putin's regime. Such a show, however, is deeply false in the present situation, and Russia's Western partners have reason to be concerned about the escalating pressure on non-governmental organisations and persecution of the opposition in Russia, while for China and other emerging powers it is the Kremlin's inability to renew its top leadership and combine economic and political reforms that devalue Russia's claims for a special role in the emerging and evolving multipolar world.

## Conclusions and recommendations

Russia's persistent high-level efforts to profile the G20 have brought an increase of international focus on this organisation and emphasised its limited capacity to address the fundamental causes and current manifestations of the continuing global economic crisis. The expectations for meaningful results from the St. Petersburg summit remain quite low, but the gathering of the world's leaders should most probably run smoothly through the uncontroversial, if lengthy agenda and receive high marks for good organisation. Unlike the G8 meeting in June 2013, which was dominated by disagreements over the civil war in Syria, the forum in September is unlikely to be hijacked by a particular crisis (like, for instance, an escalation of instability in Egypt), if only because the participants much prefer to concentrate on economic matters and acknowledge that their capacity to find a consensus on difficult political problems is fairly low.

Russia is investing much effort in instrumentalising the privilege of presiding over the G20 and hosting the summit as a means to build its "soft power" and boost its international status, even if the high-profile event is organised "on the cheap" (compared to the massive expenditure on the 2012 APEC summit). The key aim of this status-enhancing exercise is to establish that while Russia has advanced to the category of a "high-income economy" (in the World Bank classification), it belongs to the group of dynamic emerging powers. This self-positioning reflects the shift in President Putin's perceptions of the U.S. and EU, which are seen as fast declining in the global arena and struggling to alleviate the impact of the protracted global financial crisis. The problem with this worldview is not so much its underestimation of the strength of the innovation-based Western economies, but its denial of the depth of Russia's weakness: its ageing and shrinking population, its rusty industrial base, its acute dependency on exports of primary commodities, and – most importantly – its structural economic slowdown, which combine to make it problematic for Russia to qualify as an emerging economy.

Putin is eager to demonstrate the firmness of his political control and the restored domestic stability in Russia, but his selective repression of the poorly organised opposition might backfire and turn passive discontent into a new wave of protests. The mayoral elections in Moscow and other regional elections scheduled for September 8th 2013 could foster a mobilisation of disunited opposition forces and

trigger street protests, to which the Kremlin – inclined to treat the opposition as "foreign agents" and worried about the impression that its control is weakening – might respond with disproportionate force. Such a turn of events could create a very unfortunate background for the carefully staged G20 summit.

For the non-participating countries that have high stakes in the transformation of the global governance system, such as Norway, it is important to monitor the activities of the G20. Perhaps it is even more important to do so in the run-up to the St. Petersburg summit, which might have greater impact on this transformation than expected, not least due to Russia's efforts to increase the profile of the organisation. Other recommendations are:

- to identify the acute shortage of new ideas in the G20, first of all in assessing the impact of newly introduced or proposed financial regulations on the "real" economy, and secondly to connect with those participants that are most receptive to such ideas;
- to give serious attention to the disappointment among the emerging powers at the inflexibility of the global financial system and to demonstrate the readiness to discuss proposals aimed at breaking the deadlock in reforming the IMF;
- to acknowledge the counterproductiveness of attempts to focus key global debates on the issues that are seen by emerging powers as affecting their interests, including, for instance, climate change; and
- to impress on the Russian leadership that curtailing democracy and suppressing the opposition are detrimental to Russia's international status and have a direct impact on the investment climate in the country – and to repeat this message as often as possible.

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