



**Russian  
International  
Affairs Council**

**G20, G8, BRICS  
DEVELOPMENT  
MOMENTUM AND  
INTERESTS OF RUSSIA**





RUSSIAN INTERNATIONAL AFFAIRS  
COUNCIL

Moscow 2012

UDK 339.97<<2012/2014>>=111

Editor in Chief:

**I.S. Ivanov**, Corresponding Member, RAS, Dr. of History

Editorial Board:

**I.S. Ivanov** (Chairman), Corresponding Member, RAS, Dr. of History; **V.G. Baranovski**, Academician, RAS, Dr. of History, Professor; **A.M. Vasilyev**, Academician, RAS, Dr. of History, Professor; **A.A. Dynkin**, Academician, RAS, Dr. of Economics, Professor; **V.L. Inozemtsev**, Dr. of Economics; **A.V. Kortunov**, Ph.D in History; **V.A. Mau**, Dr. of Economics, Professor; **V.V. Naumkin**, Corresponding Member, RAS, Dr. of History, Professor; **S.M. Rogov**, Academician, RAS, Dr. of History, Professor; **I.N. Timofeev**, Ph.D in Political Sciences, (Scientific Secretary)

Compiled by **M.V. Larionova**, Dr. of Political Sciences

Copy Editors:

**I.N. Timofeev**, Ph.D in Political Sciences, **T.A. Makhmutov**, Ph.D in Political Sciences, **E.S. Alekseyenkova**, Ph.D in Political Sciences, **O.S. Rozhdestvenskaya**

Translated by **L. Kletsko**, **B. Osokin**

Translation edited by **B. Osokin**

The report presents key findings and recommendations of several scientific and expert workshops conducted by Russian International Affairs Council within the project «Increasing the effectiveness of Russia's Participation in G8, G20, and BRICS in accordance with the Priorities and National Interests of Russia». The report deals with the problems of legitimacy and effectiveness of the «Group of Twenty» as a platform for the dialogue between developed and developing countries, problems of the G8 agenda in the context of global challenges and interests of Russia as well as prospects for monetary arrangements between the countries of the BRICS. The report includes proposals for Russia's membership strategy in G8, G20, and BRICS.

## TABLE OF CONTENTS

FOREWORD	6
PROPOSALS FOR RUSSIA'S STRATEGY FOR PARTICIPATION IN G20, G8, AND BRICS FOR 2012–2014 (by M.V. Larionova)	8
KEY G20 CHALLENGES (by V.B. Lukov)	12
G20: OPPORTUNITIES FOR A DIALOGUE BETWEEN GROUPS OF COUNTRIES AT DIFFERENT POLES OF IMBALANCES IN THE GLOBAL ECONOMY AND FINANCE (by M.V. Braterski)	15
THE G20 EFFICIENCY AS THE BASIS AND FACTOR OF ITS LEGITIMACY (by N.A. Kosolapov)	16
WILL THE BRIC CURRENCY AGREEMENT WITHSTAND THE G7 CASH FLOW? (by M. Gilman)	19
THE G8 DEVELOPMENT PROSPECTS IN THE CONTEXT OF EXTERNAL CHALLENGES AND RUSSIAN HOME AND FOREIGN POLICY LONG-TERM PRIORITIES (by V.V. Panova)	21

## FOREWORD

The goal of the project «Increasing the Effectiveness of Russia's Participation in G8, G20, and BRICS in accordance with the Priorities and National Interests of Russia» launched by Russian International Affairs Council is to elaborate proposals for concepts and agendas of future Russia's presidencies in G20 (2013), BRICS, and G8 (2014). The year 2011 saw the first steps towards building a network of experts and arranging a series of scientific workshops with the participation of leading Russian scientists and representatives of government bodies.

At the seminars, experts discussed the role of G20, G8, and BRICS in contemporary international system and the prospects for their development in the context of external challenges and long-term priorities of Russia's domestic and foreign policy. At the end of each workshop there were developed proposals for increasing the effectiveness of Russia's participation in G8, G20 and BRICS. Several reports prepared within the framework of the project were published in the Vestnik of International Organizations Magazine, No 4, 2011. This collection of papers presents a brief expert assessment and outlines recommendations for the future agenda of the forums.

The section «Proposals for Russia's Strategy for Participation in G20, G8, and BRICS for 2012-2014» contains out integrated recommendations for all the three platforms, based on the analysis of the significance of key global risks for Russia and comparative evaluation of potentials of the G20, G8, and the BRICS potentials of risk response and management. The paper was written by Marina Larionova, Director of the Institute of International Organizations and International Cooperation, the HSE, Dr. of Political Sciences.

In the article entitled «Key G20 Challenges» Vadim B. Lukov, Ambassador-at large, foreign affairs sous-sherpa from the Russian side in G8, coordinator of the Russian Foreign Ministry in G20 and BRICS, Dr. of History, formulates G20's key problems, highlighting main factors affecting global economy and finance.

The third section, «G20: Opportunities for a Dialogue between Groups of Countries at Different Poles of Imbalances in the World Economy and Finance» has been written by Maxim V. Bratersky, senior research fellow at the Center for Comprehensive European and International Studies, the HSE, Dr. of Political Sciences. This section contains an assessment of the G20 capabilities in the restructuring of global finance.

Nikolai A. Kosolapov, Head of International Political Problems Division of the IMEMO RAS, Professor of Political Science Department of MGIMO at the Russian Ministry of Foreign Affairs, Ph.D. (History), in his article «The G20 Efficiency as a Basis and Factor of its Legitimacy» dwells on a number of criteria for evaluating the effectiveness of G20 and the criteria for formulating Russia's position on every issue within the G20 competence.

In the article «Will the BRICS Currency Agreement Withstand the G7 Cash Flow?» Martin Gilman, Director of the Institute of Fundamental Interdisciplinary Research of National Research Institute Higher School of Economics, Professor, Dr. of Economics, examines the pros and cons of different mechanisms of the BRICS countries' monetary cooperation. One option is to create a BRICS single currency unit – at least for transactions between the member countries.

In the final article «The G8 Development Prospects in the Context of External Challenges and Russian Home and Foreign Policy Long-Term Priorities» Victoria V. Panova, Assistant Professor of the MGIMO International Relations and Russian Foreign Policy Department, Ph.D. (History), makes the case for the significance of G8 as an international platform for meeting the challenges of global management and pursuing Russia's priorities. The author also makes specific recommendations for Russia's G8 presidency agenda in 2014.

# Proposals for the Russia's Strategy for Participation in G20, G8, and BRICS in 2012–2014

(by M.V. Larionova)

The next few years will be particularly important for Russia's participation in multilateral diplomacy. Russia will have to preside almost for over several important international meetings: G20 in 2013, G8 and BRICS in 2014. Such a coincidence creates an opportunity for elaborating and implementing an integrated strategy aimed at developing common approaches to addressing global risks of the coming decade and promotion of the Russian Federation's national interests. Certainly, the agenda of each of the presidencies should take into account what global public goods can be most effectively created by G20, G8, and BRICS.

All the three multilateral institutions are long-term factors of the world politics. The emergence of G20 raised questions about the viability of G8 and the division of tasks between G8 and G20. However, during the period when both organizations held their summits G8 has confirmed that not only it remains a forum for discussion of global geopolitical problems: it is also committed to fulfilling the obligations to resolve social problems. Co-existence and co-ordination of G8 and G20 activities must be based on the principle of comparative advantages. The division of tasks on the priorities is not complete and cannot be preset. Both institutions must have their own nuclei of core agenda issues, but if needed they can also work on the same things. Distinct division of tasks would reduce flexibility and responsiveness of the summits and the opportunities of the leaders working on different topics in variable architecture of cooperation in a complementary mode.

G20 cannot perform all functions of global governance in all areas, solve all problems that cannot be handled by the existing institutions, support the processes of collective management in such areas as political cooperation, security and nonproliferation of weapons mass destruction. The G20 agenda must be centered on economy and finance. In the years to come the G20 priorities should be focused on restoring investor and consumer confidence, support of financial stability, economic recovery, fostering employment and reform of financial institutions. However, this does not mean the diminishing importance of G8: it will continue to operate as a «default forum», an institution where the leaders discuss and resolve those issues which can be coordinated most effectively in this format. G8 might be the key institution for coordinating such issues as security, failure to settle conflicts diplomatically, unresolved problems of fragile states, terrorism, corruption, security of vital systems.



Despite the fact that the G20 leaders have proclaimed G20 to be the main global platform for international economic cooperation, in the future the G8 agenda must be «sensitive» to economic and financial issues. Adjustable, changing architecture of co-operation creates additional opportunities for achieving a consensus on the most pressing issues.

Obviously, it is necessary to develop such a format of cooperation between G8 and G20, which will go beyond the simplified scheme of division tasks and give a special role and added value to each of the institutions in the system and facilitate active cooperation in the interests of creating a comprehensive and coherent system of global governance.

The BRICS place in the system of global governance depends on the growing influence of member countries in the world economy. However, the increasing role of this forum in the system of global governance is not a function of one variable only which is the economic growth of the BRICS member states: an important factor is the strengthening of cooperation between the countries. Since the crisis of 2008, the coordination of the BRICS countries (before 2011 it used to be BRIC) has been expanding in different policy areas, in various formats and at different levels. The effect of BRICS in the next decade will grow both in the area of the global finance and economy and policy issues. Experts and practitioners often regard BRICS as a political forum, though its agenda is dominated by economic and financial issues, including the task of providing balanced global growth and problems of reforming the international financial system. This is due to the fact that the BRICS member states coordinate their positions on the ways of overcoming crisis, which is the mandate of G20. For participating countries BRICS is one of the platforms for a dialogue and cooperation in economic, financial and development spheres. Among other goals set by the BRICS countries: a gradual strengthening of positions, ensuring equity with traditional centers of power in managing global economy and global finance, closer interaction with international financial and economic organizations. That is why the coordination of positions in G20, IMF and the World Bank remains pivotal for cooperation.

However, evolution of BRICS into another key element of the global governance system requires the elaboration of a positive and long-term agenda, which aims at creating global public goods. BRICS' own positive agenda may be socially-oriented and include such goals as the reduction of demographic risks, food shortages, urbanization and inadequate management of water and land resources. The level of these risks for the BRICS countries is very high, exacerbated by the need to address the infrastructure problems facing many fast growing developing countries.

When determining the priorities of the presidencies in G8, G20, and BRICS it would be appropriate, above all, to identify the issues that would inevitably be in the focus of the global community's attention, the most pressing concerns of the whole world. This would not be an easy task, though, given the rapidly changing international processes. The next step would be to prioritize Russia's interests and accordingly select the areas where Russia has the potential for active involvement in

global processes. Subsequently, G20, BRICS and G8 should be considered from the point of view of Russia's internal development, above all the development in economic and social fields. This would enable to identify the points of intersection, taking into account the responsibilities of each of the forums.

The 2012 World Economic Forum Global Risks Report provides deep and systemic insight into the most burning issues for the international community. The WEF assesses global threats starting from 2006 under the «Initiative of the Risk Response Network to Global Risks», identifying the key issues of global governance of the next decade and their interaction and forming the understanding of common tasks, both for the international community and the three above institutions.

The most critical and likely threats of the next decade can be broken down into five categories of clusters: economic, environmental, geopolitical, societal and technological. Each of the five categories contains risks that have the greatest systemic importance – «centers of gravity»:

- Chronic fiscal imbalances (economic) are compounded by unmanageable inflation and deflation, recurring liquidity crises, prolonged infrastructure neglect and chronic labor market imbalances, mismanagement of population's aging.
- Rising greenhouse gas emissions (environmental) are exacerbated by irremediable pollution of the environment, failure of climate change adaptation and natural disasters.
- Global governance failure (geopolitical) occurs when all other risks have been posed, but is mostly rooted in pervasive entrenched corruption, unsettle problems of fragile states, failure of diplomatic conflict resolution, backlash against globalization and terrorism. In their turn such risks provoke the increase of other systemically important risks.
- Unsustainable population growth (societal) is caused by unmanaged migration and mismanaged urbanization, critical fragile states, mismanagement of population aging, food crises, mismanagement of land and waterways.
- Critical system failure (technological) is compounded by risks of cybercrime, massive manipulation of data, mass digital misinformation, terrorism, and undeveloped infrastructure.

«The centers of gravity» are joined into one coherent system by the four so-called «critical connectors»: huge income gap, major system financial failure, unforeseen negative consequences of regulation and extreme volatility of energy and agricultural prices. All of them belong to the category of economic risks.

Based on the analysis of dangers that key global risks pose to Russia and the comparative evaluation of options and compliance of the G20, G8 and BRICS mission with global governance goals, the following approaches to the formation of Russian G20, G8, and BRICS presidencies agenda could be proposed:

1. Taking into account great potential of each of the institutions, focus their efforts on responding to the risks included in the clusters. The G20 agenda should concentrate on managing risks in the economic cluster. The G8 priorities should lie in the sphere of managing risks in the geopolitical and technological clusters. The BRICS innovation long-term agenda should have the management of societal cluster risks as its target.

2. Enhance or in some cases put on the agenda of the institutions the cooperation in responding to risks included in relevant clusters, but so far not dealt with by G20, G8, and BRICS because ignoring such risks and whole clusters would lead to their aggravation in the future.

3. Consider the inclusion of technological cluster in the priorities of the G8 agenda, as its main threat is the critical systems failure. It is important to supplement the priorities of the geopolitical cluster on the G8 agenda with the relevant critically important economic risk of income gap, major system financial failure and the unforeseen consequences of regulation.

4. Strengthen the G20 agenda related to the economic cluster risks with the cooperation aimed at income gap narrowing and minimization of unforeseen consequences of regulation. It is essential to include in the G20 priority agenda such a social risk as food crises caused by food and energy prices volatility.

5. Form the BRICS agenda aimed at addressing the societal cluster problems, adding the unsustainable population growth, food crises and natural hazards of mismanaged urbanization and mismanagement of land and waterways.

6. Use the cluster approach, since it provides the basis for division of tasks by individual groups of clusters. As a result each institution can make its own contribution to the elimination of global governance failures. This also enables to identify areas of cooperation, especially in removing critical risks and especially those that have the greatest systemic importance.

Some risks have already been put onto the agenda of all the three institutions: it is the global governance failure and chronic fiscal imbalances. A number of risks are part of the agenda of the two institutions. Among the priorities of G20 and BRICS are the tasks of risk management within the economic cluster: recurring liquidity crises, uncontrollable inflation and deflation, chronic imbalances of the labor market, volatility of energy and agricultural prices. For G20 and BRICS it is a problem of terrorism. For G20 and G8 it is food crises.

7. Ensure G20, G8, and BRICS cooperation and coordination in those areas of risk management which so far have escaped their attention. These are critically important risks: growing income gap of the population and unforeseen negative effects of regulation as well as the risk of a long infrastructure neglect which are included, in fact, in two clusters: economic and technological.

The combination of the division of labor and cooperation principles greatly enhances the capability of all the institutions to successfully manage global risks.

## KEY G20 CHALLENGES

(by V.B. LUKOV)

G20 should reaffirm at present stage its two key functions: the first – crisis response, «crisis headquarters» of the world economy and finance function, and the second – long-term reform of the world's financial and economic system instruments. This requires the understanding of current global financial and economic processes as their impact on world economy and finance in the medium and long term perspective is going to profoundly change the nature of the economic cycle, especially in the developed countries. What does this mean?

Due to the economic environment of protracted uncertainty the seven or eight-year-old investment cycles which are the core of the medium term economic cycles, have become uneven, unstable and short-living. Why? The reason is simple. Businessmen are afraid to invest big money as they do not know whether their products will be in demand at the market. As a consequence we face short and unstable development phase, protracted stagnation and an even longer recession, if not a crisis. The proper economic cycle is getting shorter. While in the 80s–90s of the last century and at the turn of this century it lasted from seven to eight years, now it lasts from five to six years. This transformation of the economic cycle causes the whole array of long-term consequences for other economic processes, for economic institutions and the institutions of international economic cooperation.

First, while in the developed countries this economic cycle is becoming «flatter and flatter» (the IMF forecast for 2011 economic growth rates in the euro zone was 1.2%, in 2012 – 1.1%, a similar pattern in the USA), and the «new economies» continue their rapid growth, the trend discrepancies between the economic growth of developed countries, on the one hand, and the emerging economies and developing

countries, on the other, are becoming more obvious. This leads to the creation of global imbalances, i.e. the very imbalances that lay at the heart of the 2008 financial crisis.

As a result, we are faced with a sad paradox. The very goal of creating G20 was to diminish these imbalances, to find ways to reduce them, but now we find ourselves back to square one because the imbalances are growing. There is currently much controversy about who is «to blame» for the bloating of these imbalances.

Second, economic cycles in different regions of the world tend to decouple. This is graphically clear when one compares the above mentioned differences in the rates of economic growth in developed economies and nascent market economies after the crisis of 2008-2009. After all, if the economic cycles in these groups of countries were firmly coupled there would be no need to talk about trend discrepancies. Clearly, the chain of global economic interdependence formed in the 80-90s has changed dramatically. On the one hand, it is for good. But for that, there wouldn't be pockets of stable economic development in vast areas, particularly in Asia. On the other hand, the trend towards decoupling contributes to the increase of global imbalances.

Third, there is a long-term change in the nature of relations between the government and the economy, especially in the developed countries. Economy has become heavily dependent on subsidies and it would take it a long time to «kick the habit».

Last, but not the least: with growing imbalances increases the volatility of financial flows. These imbalances are exactly the basis for the existence of speculative capital. The greater are the imbalances, the wider is the scope of these speculations. Such sudden massive overflows of speculative capital pose an imminent threat to many national economies and the international financial system.

There is much talk today about the world being on the eve of a new crisis. However, if it does break out, it would be a different crisis, with other characteristics. Given this, it would be extremely dangerous to prepare G20 and, through it, national financial and economic systems – for the resumption of the previous crisis with the same characteristics. We must bear in mind not only the familiar past threats, but also be able to identify those that still lie beneath the surface or have been underestimated. We should also keep track of new risks and measure them up against the current G20 opportunities for early identification and response.

It is important to increase the short-term anti-crisis capability of G20. This would give a strong voice to the BRICS monetary authorities and other countries with large foreign exchange reserves when shaping the IMF long-term policies and taking decisions on measures to rescue the euro zone fragile economies.

The G20 mobilization readiness also requires tools for the ongoing collective analysis of the situation, both operationally and in the midterm, at least to provide

managers with timely information. The group, which carries out collective analysis, could include representatives both of monetary authorities of the G20 countries, and IMF and the EU.

At the Cannes G20 Summit the Cannes Action Plan for Growth and Jobs was adopted to mobilize the developed countries with high levels of public debt for active measures to rectify the situation. Russia, together with the BRICS partners, confirmed its willingness to help strengthening the financial stability of the euro zone through providing additional loans to IMF, support of the SDRs issue and contributions to special IMF mechanisms.

However, even after the Cannes Summit tension on the euro zone financial markets does not subside. It is not only the weak countries of the European periphery that have difficulty accessing loans, but the key euro zone countries such as Italy and France which have come under pressure from the «bears». Thus, there is a threat of the looming European crisis entering a new phase. Given the size of European economy, no external aid can make any tangible difference – ultimately Europe must help itself.

Taking into account all the above processes in global economy and finance, the main objective of the forthcoming summit in Los Cabos must be the restoration of market players' confidence amid growing uncertainty of economic development and creation of conditions for strong, balanced and sustainable growth.

Therefore, the following issues should be prioritized by G20 between now and the summit in Mexico:

1. Monitoring risks (sovereign debt crisis, financial system instability, market turbulence, weak economic growth and high unemployment) and possible measures of G20 crisis response in case of the situation's deterioration, especially for the prevention of possible crisis «spillover» tendencies.

2. Strict compliance of the G20 members with the Cannes Action Plan, including the obligation to support the development of bond markets in local currency denominations and provisions of Coherent Conclusions on the management of capital flows arising from national practices. It is important that the Coherent Conclusions specify a balanced position, reflecting different national approaches to the regulation of capital flows and also stress the responsibilities of countries in respect of their macroeconomic policies and the need to consider its impact on the economic policies of other countries.

3. The implementation of decisions aimed at reducing price volatility in the commodity and food markets, unpredictable fluctuations of such prices, creating substantial risks for both operating stability of some key sectors of the economy and monetary policy and budget planning.

# **G20: Opportunities for a Dialogue between Groups of Countries at Different Poles of Imbalances in the Global Economy and Finance**

(by M.V. Braterski)

The extent, to which the G20 platform is important for advancing Russia's interests, is largely determined by Russia's agenda. By and large, financial priorities of the Russian foreign policy may be divided into those for a short term, i.e. coordinated efforts to mitigate the second crisis wave, and the long-term ones— the restructuring of the global financial system to make it more comfortable and less damaging for Russia (ideally, so that Russia could enhance its influence and wealth).

The following are Russia's long-term interests in relation to the world financial system:

1. To do away, at least partially, with the original sin situation, which means preventing Russia from conducting foreign trade, execution of international financial operations and accumulation of reserves in national currency.
2. To alleviate the contradictions between national fiscal policies peculiarities of the countries that produce world currencies and the interests of those who use them.
3. To establish control over fitful transfers of «hot money» huge volumes across Russian borders.
4. To stabilize prices for key items of Russian exports.

The above amply demonstrates that some pressing Russian problems lie within the competence of the Russian national sovereignty and are not the responsibility of international financial organizations. To illustrate, wider use of the ruble in international exchanges and financial operations belongs to the realm of Russia's bilateral agreements with its trade partners: the dynamics of trade integration with in the post-Soviet space and a series of Russia's bilateral accords with China and Turkey on currency swaps show that these problems do find gradual solutions. The extent, to which it is desirable to open the Russian financial market, is also a national policy issue. It is for Russia to decide what kind of stock market it needs. No doubt, G20 could help resolve these problems to a certain extent, for example, by expanding the IMF currency basket or enforcing a global tax on financial operations (so far, both ideas do not seem too realistic), but G20 cannot solve these problems instead of Russia.

On the whole, a possible solution of global financial system's problems system may be its radical restructuring. It would require a dialogue between groups of countries at different poles of imbalances in global economy and finances, i.e. creditor and debtor nations, surplus and deficit countries. So far, there has been no formal

organization of such negotiating sides: G20 has brought them together on a single negotiating platform but without any division into factions. The core negotiating position of debtor countries may be developed by G6 (G7 less Japan), whereas the creditor group has to be built from scratch to include the main gold and currency reserve holders like China, Japan, Russia, South Korea, Saudi Arabia, etc. BRICS would not fit this role as the group unites states by their size and high growth rates, while its goal is to increase their political influence on solutions in the global economy and finance. At the same time, BRICS could initiate the dialogue as a force willing to change the status quo, but the dialogue itself should be conducted in a different format.

As to the UN, there is no room for it in reforming the global monetary and financial system: neither organizationally nor functionally is it intended to tackle global financial problems. However, the UN could offer political support to the launch of such a dialogue. As to the organization of the negotiations process and search for solutions, the IMF, global and regional development banks and regional stabilization funds could act as experts: they were set up in the first place to carry out certain policies rather than initiate them. The IMF and other similar bodies cannot reform themselves as such decisions must be taken by the states that have provided them with relevant authority and funding.

## **The G20 Efficiency as the Basis and Factor of its Legitimacy** (by N.A. Kosolapov)

Currently, the problem of the G20 legitimacy as an international institution and its actions is not a priority either for G20 itself, its member states, global business community or for public opinion. The state of global finances and economy obviously requires a coordinated policy of key economic players.

The states that generate the lion's share of the world gross product and conduct the bulk of international financial operations are not only entitled, but also morally responsible to take all practical measures to ensure that the world economy and financial system, trade and other economic relations and exchanges should develop without acute crises and financial cataclysms. Those problems that are inevitable should be analyzed and resolved on a timely, adequate and coordinated basis.

In a modern world states are holders of sovereignty and thus sole sources of legitimacy. The G20 establishment at the Finance Ministers level and its further



upgrading to the heads of state and governments status complies with the international law and does not in any way impair the status and authority of previously established intergovernmental international organizations. Besides, the founder states have the right to amend their own charters and goals if and when they find it necessary.

In a long run, the legitimacy problem of the G20 decisions and its activities is likely to acquire more significance. This would happen both in case, of the Group's overall success or some ineffective recommendations. In the first case, a detailed elaboration of legal and practical issues of the implementation of the G20 decisions, the as well as the responsibility for their non-compliance and/or their consequences would be required. In the second case, the preservation of the Group and its authority and/or its reform issues would require legitimization.

There have been high hopes for the G20 effectiveness since its foundation. The Group's mission is seen not as «patching up holes», but as search for and implementation of measures to curb the crisis processes and phenomena pervading the global financial and economic system. In fact, it is a political and economic challenge. In the past, capitalism was treated as a political and economic problem within the boundaries of one state, which also determined methods and tools of anti-crisis regulation. In a globalized environment the whole world has to be considered as a single political and economic entity, its ties with different states as territorial and economic complexes and transnational banks and corporations as main building blocks of the global economy.

As there has been no theoretical explanation offered for these connections yet, it is difficult to expect the emergence of the effective worldwide anti-crisis regulation means. At the same time, the responsibility for anti-crisis regulation has largely been transferred to G20. However, if and when the above tools are developed and successfully employed, G20 would inevitably infringe upon many interests and face a forceful campaign of de-legitimization of the Group and its activities as incompatible with ideals and goals of liberalism.

In conclusion, here are some recommendations for the assessment of the G20 effectiveness, practical operations and legitimacy:

#### 1. In the long-term perspective the G20 effectiveness will hinge on:

- its ability to maintain a timely and competent dialogue between the participants on the issues under consideration;
- readiness of the G20 members to develop operational criteria for the implementation of its goals (strengthening of the financial architecture, support of economic growth and development, global economic stability) and to elaborate reasonable realistic recommendations on this basis;
- readiness of the G20 participants to implement such recommendations and urge other countries, international institutions and global economic and political

entities to follow suit through setting an example and persuasion.

2. Bearing in mind the global political and economic nature of its tasks, G20 should take decisions and set examples that would help create the fundamentals of legitimacy for the emerging system of global self-government. Elaboration and the G20 maintenance of such fundamentals in the process of creation and by means of supporting stable economy, finances, growth and development should constitute the key goal of the Group activities.

3. The practical value of G20 and its operations in the modern world primarily lies in its being the prototype of the global executive financial and economic authority established on the basis and in accordance with the international law. Further evolution of G20, its functions and operations should proceed along these strategic lines. At the same time, the Group should avoid the expansion of its agenda and taking inherently risky decisions doomed to failure, as it could make G20 politically and/or morally responsible for matters beyond goals and tasks agreed upon by its members.

4. Currently, legitimacy of G20 is not an issue for Russia and its policies. Russia is interested in global financial stability attained through a combination of time-tested decisions and novel approaches reflecting the changing financial, economic and political realities. This should be a key criterion in determining Russian positions on each specific issue considered by G20.

5. The goals of global financial stability require a more clear-cut definition of the latter and raise the issue of political and legal interconnections between a state and global governance. In view of the approaching Russia's G20 presidency and long-term prospects, a theoretical and practical elaboration of the interpretation of global financial stability and political and legal aspects of interconnections between a state and global governance up to 2025-2030 would seem to be in order.

6. The internal inconsistency of Russia's interests lies in the fact that private interests of Russian economic entities are tightly linked to the US dollar, whereas the state's long-term interests demand greater opportunities for maintaining global financial stability. To this end, Russia's positions within G20 should be geared toward supporting those proposals and decisions that would promote stability through diversity of the global financial system.

7. Accordingly, one criterion of the G20 legitimacy in maintaining global economic stability should be the strengthening of the internal diversity of global economy and financial internal diversity through natural diversification of their subjects.

# Will the BRIC Currency Agreement Withstand the G7 Cash Flow?

(by M. Gilman)

Getting back to the intention of the heads of the Chinese and Russian governments to explore the possibility of establishing regional currency agreements announced at the second BRIC summit in 2010, it may seem they foresaw the approaching instability in the world monetary and financial system.

Certainly, their intention was not too ambitious since the idea of regional currency agreements emerged at the eleventh hour. It seems to have been determined largely by the desire to avoid losses incurred as a result of operations with third party currencies, mostly the US dollar, as once was mentioned by Vladimir Putin. No major progress was reached in this area. However, probably unknowingly to themselves they touched upon the subject that might have become a modest but quite symbolical contribution to creation of a new international monetary regime.

Can the issue of regional currency agreements be relevant for BRICS? Regional currency agreements are intergovernmental accords of different types, ranging from currency unions like the euro zone, Eastern Caribbean Currency Union or Franc Zone of West and Central African Countries to technical agreements aimed at providing funds for trade in a limited currency framework, the G10 swaps of 1960, multilateral swap agreements under the 2000 Chiang Mai initiative and agreements on artificial currency units like The IMF Special Drawing Rights and ECU of the EEC (appearing in 1979), whose aim was to enhance coordination of central banks' activities in the monetary field.

It is obvious that the key prerequisite for various regional and bilateral currency agreements should be the desire to reduce the costs, actual or potential, within the existing monetary system. Since the US dollar is the dominant currency, any initiatives related to using other currencies in settlements between the BRIC states and countries outside BRIC would have obvious political implications. However, until lately there has been no pressing economic need for such initiatives. The BRIC countries with their substantial foreign currency reserves and advanced mechanisms of trade financing have no apparent grounds for entering into regional currency agreements.

Still, the BRICS' movement towards the establishment of its own alternative to the G7 currencies may proceed from such considerations as financial security and political prestige.

The existing currency regime may collapse due to the same reasons that caused the crisis of other monetary systems in the previous century, i.e. the gold standard and the Bretton Woods System. One or more key players failed to observe the monetary discipline required for the system integrity. The G7 major central banks heroically tried to boost their indebted economies, significantly increasing liquidity supply. This proved to be a mistake.

Measures to pump cash into the world economy taken lately by the G7 central banks do justify getting back to the idea of regional currency agreements as a step to protect BRIC and other states from the money wave and to demonstrate that such a behavior of reserve currency issuers will face growing resistance. Undoubtedly, the financial markets will be able to independently develop mechanisms for global market pricing in currencies other than the US dollar and euro. However, it does not mean that the BRIC countries should not work in this direction.

The unprecedented aggregate growth of money supply in the G7 currencies (US Dollar, Euro, Yen, Pound Sterling) from USD 3.5 trillion three years ago to 9 trillion in early 2012 poses a major risk. Life shows that money supply growth of this scale will spark inflation and interest rates hikes. At best, we are in for a period of international monetary volatility, and the situation is going to deteriorate because there seems to be no end to cash infusions from the Federal Reserve Board, European Central Bank, Bank of Japan, and Bank of England.

The G7 policies largely contradict the BRIC interests. The cash wave usually boosts commodities prices, as was the case with the recent oil price hike, inflates bubbles at the real estate market and puts capital flows into greater motion. As a result, the BRIC macroeconomic policies have become increasingly complicated, with the number of risks rising.

What could be feasible in this situation? Currencies of such countries as Switzerland, Singapore or Australia are either limited in use or lack the characteristics required for a global reserve currency.

It seems premature and groundless to state that the Yuan, Ruble, Rupee or Real may become global reserve currencies. And it is far from obvious to be in somebody's interests. Ostensibly sensible is to admit that the current period creates a possibility and even prompts the need for the emergence of a new standard in the global monetary and financial system. Experts do tend to regard the world economic processes through the prism of gold and oil prices. As the BRIC countries outpace G7 in economic parameters, they are really able to help the global economy prepare for the times when the US dollar and euro will no longer seem as its sufficiently reliable foundation. Established in 1969, the SDRs make the basket of the same currencies and for this reason cannot take up this role.

The BRIC states could advance a sensible initiative like setting up a payment unit of their own, possibly naming it BRIC. On a par with the US dollar and euro, this

currency could become another standard and indicator of the international monetary and financial system.

Note the historical precedent of ECU created in 1979 as the unit for clearing settlements inside the European Community. Theoretically, setting up a similar currency unit is not too difficult through allotting it fixed shares of the Yuan (dominating currency), Rupee, Ruble and Real. At the initial stage, the unit could be applied exclusively for settlements within the BRICS group.

The BRICS currency unit could perform several functions, for example serving as a safety cushion in unsound financial environment. This would also signal to investors and G7 that BRICS is willing to be more active in the operations of the international monetary and financial system. This step would also have a significant political sense. Technically, the implementation of the idea is quite simple and would not require more administrative resources apart from such measures by the BRIC central banks as introduction of new accounts and key issues declared for the new currency unit that makes a currency basket. And initially the unit will not possess operational functions.

In the long term, this payment unit, especially if the US dollar and euro turn insufficiently stable, could be used for bond issuing. Today only gold, with all its limitations, may work as a stable reserve currency should the US dollar and euro collapse. Hence, there is every reason for BRICS to establish its own alternative currency unit that could protect its members when the post-Bretton Woods System eventually caves in under the burden of a cash flow.

## **The G8 Development Prospects in the Context of External Challenges and Russian Home and Foreign Policy Long-Term Priorities**

(by V.V. Panova)

The current monetary and economic crisis, as well as military and political developments in the Middle East indicate that the settings, shape and content of the international system have ceased to comply with existing requirements and needs of its participants. Despite the demolition of the old bipolar confrontation system, the U.S. efforts to build a unipolar world order, including those undertaken in the 1990s through existing formal and informal mechanisms of cooperation, have failed to make the country the core of the system and bring stability. During the 2000s, the traditional parties, states and intergovernmental agencies, as well as relatively new players, i.e. civil society, business, various network structures and others have been striving to

rebalance the international relations.

The industrialized countries are seeking to preserve their positions and established rules of the game, whereas the new dynamic economies of the formerly peripheral world regions have reached a new level of cooperation both with the countries of the industrialized North and with each other. Today, they are systemically important for the functioning of global monetary, trade and economic systems, and also have ample opportunity to influence upon political processes.

G8 basically represents the old world, protecting the fundamental pillars of the previous structure of international relations. Although external changes and environmental needs necessitate a revision of the G8 functions and role, it would be wrong to entirely discard its mechanism. Further G8 development will be shaped by critical factors both within its member countries and in the world.

Should military and political situation in the world deteriorate, the G8 role would have to be strengthened. Thanks to this mechanism, Russia could try to contain NATO activities, which it considers undesirable (the right to veto in the UN Security Council may prove to be insufficient). One advantage of G8 in this respect is its rather loose agenda enabling to come to an informal compromise through package deals.

New topics for the near-term outlook within the G8 framework include a possible socio-political and cultural debate on the ideological dimension of the modern world, as well as changing the place of traditional liberal democracies if competing ideologies and approaches enter the international scene. It is necessary to distinguish between the discussion on ideological and cultural dimension from the attempts to introduce religious component in the concept of interaction among the G8 leaders.

However, the G8 agenda does not necessarily have to confine to social and political spheres. Despite the recognition of G20 as the basic structure for managing global economy, it is not reasonable to deliberately remove all economic and financial issues from the G8 sphere of interests. It makes sense for Russia to continue its efforts on the ministerial level both to protect the interests of the Russian Federation by multi-dimensional monetary and fiscal policies, and to strengthen Russia's position in BRICS as a potential agent of influence of dynamic economies' on the industrialized countries of the North.

Excluding any international problem from the G8 summit agendas makes it harder to achieve concrete results through package deals, which is another evidence against the unwarranted narrowing of such agendas.

Therefore, it becomes clear why G8 should not be regarded as an auxiliary or support mechanism to G20. Being similar to G20 in terms of functions, G8, however, has some fundamental peculiarities. It has empirically proven its worthiness and viability, as well as flexibility and readiness to act in response to external changes.

Despite certain G20 achievements during the crisis the profound dissimilarity among its member countries casts doubt on the ability of G20 to perform appropriately after overcoming the crisis. Nevertheless, it will continue to exist, due to the opportunities it provides to its major regional powers with the aim to pursue their ambitions of global governance, regardless of the effectiveness. G8 along with BRICS can generate ideas to be further tested within G20 with subsequent de jure legitimization by the UN and other organizations. It should be remembered that Russia is a unique country due to its participation in all informal mechanisms of top-level cooperation.

If the positions of BRICS and G8 could draw close enough in the near future, there would be no need for the existence of these institutions and G20 could perfectly take over and replace both. Russia needs to maximize the opportunities of its unique position as a member of G8 and BRICS, although it cannot and should not play the role of an intermediary between the two groups. Excessive mediatory efforts are likely to lead to its alienation within both groups since they would treat Russia as an agent of influence of the rival structure.

Considering that G8 is likely to continue functioning and retain its importance at least in the near-term outlook, the promotion of Russian interests through this mechanism, especially in view of the coming Russia's G8 presidency in 2014, becomes the pressing issue of today.

Russia must return the problem of strategic vision and management in the energy sector to the agenda, as the decisions of the St. Petersburg Plan of Action have remained virtually on paper. The problems of common spaces and preventing the attempts of their militarization, including those contrary to existing international agreements, are also important for Russia.

Russia is directly interested in preservation, further development and compliance with the provisions of the international law, establishing generally accepted constraints on the activities of NATO and unilateral actions of certain countries, especially in non-neighboring regions. Attempts to overthrow unwanted regimes by force under the guise of protecting human rights or fighting terrorism (especially in the wake of the Arab Spring) can threaten stability on the Russian borders and entail uncalled for involvement of Russia in potential conflicts.

The issues of counter-terrorism and state building in the countries emerging from major conflicts or lacking effective strong central governments are no less significant for Russia.

These priorities call forth military and political guarantees and a comprehensive security system in the Trans-Atlantic region, as the OSCE and other concerned institutions are stagnation-stricken.

Socio-economic and development issues still represent a lasting problem for

Russia as a donor-country. It is interested in stabilization and development of not only traditional recipients of Western aid, but of the FSU countries as well. Discussions on intellectual property rights and use of new technologies to modernize rapidly developing economies and the world's poorest nations could contribute to meeting internal challenges in bringing Russian economy up to date with the assistance of the Western countries.

It is just as important for Russia to ensure continuity with another St. Petersburg priority, i.e. education, in terms of harmonizing educational programs and competency requirements. All these issues should be addressed on a permanent basis, preferably by taking up from decisions of the G8 summits to be held in the U.S. and the UK.

G8 has a unique chance of reviving the perfect type of summits as they were seen by their founders Valery Giscard d'Estaing and Helmut Schmidt, i.e. closed informal meetings without wide media coverage. Since G20 was conceived and created as a new mechanism for global economic regulation it has got extensive media coverage and has been able to distract attention from G8, which has thus received an opportunity to stay in the background while maintaining or even increasing its political weight.





119180, Moscow,  
B.Yakimanka St.,1  
tel.: +7 (495) 225 62 83  
fax: +7 (495) 225 62 84  
[www.russiancouncil.ru/en/](http://www.russiancouncil.ru/en/)