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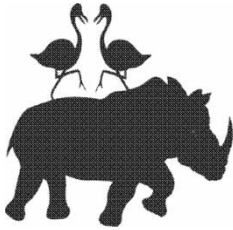
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Vadim Lukov

BRICS ECONOMIES: IN SEARCH OF A BASIS FOR MULTILATERAL COOPERATION

As the world continues to struggle with the aftermath of the 2008–2009 economic crisis it becomes increasingly reliant on traditional and new formats of economic policy coordination and cooperative approaches to reforming the international system. What is the role of such formats as the G8, the G20, and BRICS? What are the Russian interests in each of these formats? And which one looks the more promising?

We have put these questions to Amb. Vadim Lukov, Deputy Representative of the President of Russia in the G8, the Russian Foreign Affairs Ministry Coordinator for G20 and BRICS Affairs.¹

SECURITY INDEX: What is your assessment of the G20 group's activities and prospects?

LUKOV: The G20 accounts for about 85 percent of global GDP and 75 percent of global population. These figures alone make the world's governments, diplomatic services, and the public in general pay particular attention to that group. There have never been any clear criteria for gaining membership of the G20. When it was hastily set up in 1998–1999 after the Asian crisis, there was no careful weighing of the economic role of each individual country on the global stage or in its particular region. That is why from time to time questions are being asked as to whether that or another country really belongs in the G20 club. On the other hand, a number of countries are hoping to gain membership; there is even something of a queue at the club's door.

In January 2010 it was decided to impose a moratorium on discussing candidates for membership. That is because there is no consensus in the G20 as to who the potential candidates are. During the first decade of its existence the group was a discussion club for the member states' finance ministers. Alas, even though the ministers were proposing some very sound and competent ideas, they were not heeded by the member states. Take, for example, a statement made by the G20 finance ministers in December 1999—it reads like a quote from the recent G20 meeting in Cannes, or from yesterday's article in the Moscow Journal. Unfortunately, owing to the financial and economic hubris of those who determined the future of the global financial architecture, those reasonable proposals were ignored. The IMF has failed to establish any viable crisis prediction mechanisms or to accumulate sufficient resources to counter these crises on a global scale. No anti-crisis mechanisms were created; as a result we had a tragic collapse of the global economy in 2008–2009.

But let us give credit where credit is due: the G20 has tried to learn lessons from that sad story. It quickly established a new structure led by the heads of state rather than finance ministers. This new body has a comprehensive operational structure which includes working groups on reforming the monetary and financial system and the energy sector, achieving greater stability in the supplies of raw materials, fighting corruption, and achieving global development goals. The core G20 mechanism is the Sherpa meetings. The G20 acts on the basis of a general plan proposed by the IMF. Under the projections made in that plan, if the G20 takes coordinated action to kick-start global economic growth, over the next five years this will result in the creation of 30 million jobs, an



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increase of 2.5 percentage points in GDP growth, and a reduction in the number of people living below the poverty line by 33 million.

Of course, these figures must be taken with a pinch of salt. Global economic growth has visibly slowed since 2010, and there is less coordination within the G20 group. The main reason for this is that the developed economies have found themselves between a strategic rock and a hard place. On the one hand, there is a need for consolidation—but that consolidation leads to lower government spending. On the other, the economies must grow faster, but that cannot be achieved without increasing the size of the market. The current state of the Eurozone is a classic example of that dangerous situation. We are of course very glad that the European Central Bank and the European Financial Stability Fund have managed to allocate over €150 billion to save Greece from defaulting on its debts. But on the other hand, the Eurozone is now growing at just 0.5 percent. That is clearly not fast enough to resolve the strategic problem, which is reducing sovereign debt.

SECURITY INDEX: Do Russia and the BRICS nations have an agenda to address this problem via the G20?

LUKOV: A key function of the G20 group is to serve as an instrument of mutual economic learning, an instrument of harmonization of the different schools of economics. Of course, the first steps made by the G20 to produce a common economic strategy were marked by serious differences and heated debates. But the ongoing crisis has helped it quickly to overcome the initial culture shock. As a result the G20 has achieved the Pittsburgh Agreement on sustainable and balanced growth. Right now this function is very important because a debate still flares up within the group from time to time about the ways of reducing the global imbalances which led to the 2008–2009 crisis, and which have yet to be eliminated.

The second key function of the G20 is even more fundamental, in my view. The West is facing the prospect of a deep transformation of its economic and social policies. That requires a safety net to ease the transition. Solidarity between the G20 states, political as well and economic solidarity, can help to prevent the outbreak of new crises, which will hit the Eurozone the hardest no matter where they come from. Unfortunately, the Eurozone is currently the weakest link in the global economy. That is why the G20 is a very important segment. That is also why Russia insists that the G20 should focus, first and foremost, on its key objective, which is resolving financial and economic issues. We are skeptical about the proposals to expand the remit of the G20 into new areas, such as tourism, foreign policy, or the environment. There are other forums to address those particular issues, and they have the necessary mandate from the national governments to seek practical solutions.

Russia and the rest of the BRICS members are proposing that the following measures be adopted in the G20 format: implement a plan of action or a framework strategy for achieving sustainable economic growth; ensure strict implementation of the Cannes Plan by every G20 member; bolster the IMF's resources to counter possible new shocks to the global economy.

It must be taken into account that the nature of the global economic cycle has changed owing to the profound changes in the investment cycle in the developed economies. The crisis is a major obstacle to a profound transformation of the economic and social models of the developed countries. Such a transformation is long overdue.

To come back to the question of the pressing tasks facing the G20, Russia and the other BRICS nations are ready significantly to increase the resources at the disposal of the IMF—but on several conditions. First, our voluntary contribution must be accompanied by a review of the IMF quotas. The principle of “the bigger the contribution, the more votes” must be observed. Second, the IMF and the BRICS countries must receive from the ECB and the EF some clear evidence that these two bodies have done everything they can, using their own resources, to eliminate the causes of the sovereign debt crisis. On the whole, such a position is accepted by the IMF leadership and by our EU partners. We are somewhat concerned, however, that our European partners are not showing the required flexibility at the talks on reviewing the IMF quotas; they are failing properly to take into account the new economic realities.

The Russian position is based on the tasks that must be resolved by the G20. The task I have just outlined can be defined as crisis management. Another task facing the G20 is to promote

a long-term reform of the global financial and economic system. The group has already done quite a lot in this area. It has implemented a reform of the World Bank quotas. Reform and review of the IMF quotas is also under way. The new Basel III banking regulatory standards have been agreed, with more stringent reserve capital requirements.

But it is too early to say that the financial reform has been completed. Russia and its BRICS partners believe that the reform should continue. Unfortunately, not everyone at the G20 agrees. I hope, however, that through patient dialogue we will be able to persuade our partners that continuing the reform would be in our common interests. Continuation of the reform will be one of the main priorities of the upcoming Russian presidency at the G20.

SECURITY INDEX: Let us move on to the subject of the G8 and the relationship between the G8 and the G20. What are the areas in which the remits of the two organizations overlap? And what is the outlook for the G8, amid the growing importance of the G20?

LUKOV: The G8, the successor of the G7, has in some ways been upstaged by the G20. Nevertheless, it has retained its importance as an element of global governance. It has acquired a very extensive system of working organs in areas which range from international security to infant mortality.

Some politicians and analysts say the G8 will gradually decline and disappear. I do not think that such an outcome is predetermined. If the G8 can find an optimum niche for itself in the new system of global governance which is now being formed (the G20, BRICS, and several regional bodies) it will continue to play a useful and indispensable role.

Other specialists, whom I would describe as hyper-optimists, believe that the G8 will become the nucleus of the G20. I do not share such optimism because such a body would merely reproduce, in a somewhat more palatable shape, the old mono-centric economic system. Attempts at creating such a system would cause a split and a confrontation within the G20, which must be avoided at all costs, for reasons which I have already outlined.

There is a vigorous debate going on within the G8 itself about the group's current and future role. The participants are trying to identify the best way forward. As I have already said, one of the proposals is to turn the G8 into the headquarters of the G20. But that is unrealistic, for economic as well as political reasons. The rest of the G20 will never accept such an approach.

Another proposal is to arrange a division of labor between the G20 and the G8. Under that proposal, the G20 should deal primarily with financial and economic issues, i.e. crisis prevention and settlement, as well as promote the reform of the financial architecture. The G8, meanwhile, should discuss political problems and security issues, as well as facilitate action by the G20 and the broader international community in the social and humanitarian sphere—for example, in fostering international development.

There is also a third model, which is based on cooperation between the G7 and BRICS in the G20 framework. There has already been a precedent, a successful precedent of such cooperation. Thanks to direct talks between the finance ministers of the G7 and BRICS in October 2010 the leaders managed to reach an agreement on the first phase of reforming the IMF. But I don't think we need a repetition of such experiments, whereby the G7 and BRICS negotiate while the rest of the countries merely observe the proceedings. Such a repetition risks alienating from the G20 many of the countries—primarily the developing countries—which currently participate in that group. Besides, there is a risk of the G20 losing its legitimacy for the rest of the world. That is actually a serious problem at this moment. The G20 is being criticized as an unelected elitist club which is trying to foist its decisions on the rest of the world. That is why such a mode of cooperation would be justified only in cases where all the G20 members recognize that achieving a solution to some urgent problem at a plenary session, with all the representatives taking part, would not be possible. Such situations require a smaller group to take the initiative, draft a solution, and propose it to the rest of the members. But that is the only kind of situation where such an approach would be acceptable—otherwise the G20 could just fall apart.

SECURITY INDEX: What are the current dynamics within BRICS? Are there some new items on the agenda?



LUKOV: BRICS accounts for a quarter of global GDP, by purchasing power parity. It also accounts for 44.5 percent of the world's population and 30 percent of the planet's land mass. Over the past decade the BRICS economies have been generating half of the global GDP growth. The BRICS economies themselves have grown by 420 percent over the same period, compared with a 67-percent growth in the G7 countries. This year BRICS will generate an estimated 56 percent of global GDP growth. All of that makes BRICS the planet's rising star.

Some might say that the BRICS countries are too far apart from each other geographically, and they don't agree between themselves on many things. But in an era of economic globalization the question of distances becomes a minor consideration. What's really important is economic and financial muscle. Let us look at the situation in a broader context: the BRICS nations have a lot more shared interests than conflicts. These shared interests fall into four broad categories.

First, all the BRICS countries have an interest in a profound reform of the world's financial and economic architecture. In fact, that is why BRICS was born.

Second, we all want stronger international law as an alternative to unilateral use of force in international relations; we want to strengthen the central role played by the United Nations.

Third, our countries are facing the challenge of modernization in all areas, including the economy, the social sphere, and environmental policy.

Fourth, our economies are mutually complementary, which gives us a good basis for developing multilateral economic cooperation.

In November 2010 I spoke on the subject of BRICS at the European parliament; it was a workshop, not a plenary session. After my remarks one British MEP asked me with a fair degree of sarcasm, "So BRICS is more of a state of mind?" I had to tell the respected parliamentarian, "You know, there are no waiting lists for admission to a state of mind." A month after that exchange South Africa joined BRICS.

BRICS currently has as many as 14 different formats of cooperation, which include meetings at the level of heads of state, national security advisers, foreign ministers, and finance, trade, and economics ministers. This mechanism is becoming especially important following Russia's accession to the WTO. Now all five BRICS members can coordinate their positions during the Doha round of talks.

One important format of cooperation is the meetings of the BRICS ministers of agriculture. We have adopted a six-year program of cooperation in such areas as developing new agricultural technologies to ameliorate the effects of climate change; strengthening our positions on the global market; and encouraging investment in agriculture. Another available mechanism is the meetings focusing on energy security and energy efficiency. There will soon be another forum on urbanization, because the BRICS nations have some of the most densely populated cities in the world.

SECURITY INDEX: Would you, please, comment on the outcomes of the BRICS summit held in Delhi in March 2012.

LUKOV: First, the leaders of the BRICS nations have reiterated their shared position on reforming the international monetary and financial system: these reforms should continue, with a special emphasis on reforming the IMF.

Second, the BRICS countries have agreed a coordinated approach to international trade. Such coordination will now become even more effective because all five BRICS nations are members of the WTO.

Third, we have achieved practical coordination of our approaches. The essence of our approach is that there is no point debating new G20 action plans for extricating the world economy from its current near-crisis state. We should focus instead on implementing the plans we have already agreed, such as the Cannes plan of action. That plan should not end up the same way as the decisions made in 2010 in Toronto have—I mean the decision on fiscal consolidation, which the parties have failed to implement.

In foreign politics, the BRICS nations have adopted a coordinated approach on the Syrian crisis. This is very important, and this is well known, we are not making any drama or any secret out of it. Everyone is well aware of the differences which existed between us in November 2011–February 2012 on the issue of Syria. We have also achieved a coordinated approach on Iran. We have agreed to work together on defusing tensions and preventing any artificial escalation of these tensions over Iran.

The summit has adopted a plan of action. It is broader than any of the previous plans, which is only logical for a growing organization such as BRICS. Let me highlight some of the key decisions: the summit has approved the Russian proposal to begin drafting a development strategy; the summit has approved the Indian and Russian proposal to begin dialogue on energy problems; the summit has approved the Indian proposal to launch a forum on urbanization problems; the summit has approved the South African proposal to begin studying the problems facing densely populated countries.²

BRICS is open to new members and to cooperation on the basis of strategic partnership. This is not a closed club. In 2011, when Greece was in the middle of mass protests against the government's budgetary and social policies and against the decisions made in Brussels, our television showed these protests. I noticed one short but telling episode: the Russia Today TV channel showed one of the demonstrators shouting, "Greece should quit the EU and join BRICS." People have started to notice BRICS, because BRICS is the next big thing.

SECURITY INDEX: Would you agree with those who say that the BRICS nations are now creating new conditions for the global financial market? I am talking about the dollar being replaced as the global reserve currency. Russia and China made a proposal to that effect back in 2009. What are the positive and negative trends in this area?

LUKOV: To begin with, BRICS is not a headquarters of monetary or financial revolutionaries. Our goal is not to dismantle the Bretton Woods system, or to undermine the current role of the euro, the dollar, the yen, or other currencies. Our objective is to bring the Bretton Woods system, and the basket of currencies now being used as the main global reserve currencies, more in line with the current economic and financial realities. In particular, we believe that the role being played in the international monetary and financial system by the dollar requires a serious revision. The over-inflated role of that currency has a negative impact on the United States itself and on the rest of the world. The answer we propose has absolutely nothing to do with declaring a war on the dollar. Our answer is a gradual and economically rational increase in the role played by our own currencies in order to facilitate mutual trade and to increase the credit resources available to our economies. That is why at the Delhi summit the BRICS nations' development banks signed an agreement on extending cross-country credit in local currencies, and on mutual guarantees for credit in local currencies. As for increasing the role of our currencies in the IMF basket, the IMF special drawing rights basket, the situation here is more complicated. We have to recognize that, for now, none of the BRICS national currencies can be a part of that basket, for a variety of reasons. But I am sure that we will gradually achieve a situation whereby the yuan, the rouble, the rupee, the real, and the rand will all be part of that basket. In the global economic system, the BRICS motto is peace, friendship, and pluralism.



NOTES

¹ The text of the interview is based on remarks by Vadim Lukov at the Dialogue Club International meeting held by PIR Center on April 11, 2012 in Moscow.

² The details of the South African proposal to begin studying the problems facing densely populated countries can be found on the website of the Russian Foreign Ministry, <http://www.mid.ru>