The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Russia Searches for Post-G8 Footing at BRICS Summit

By Peter Hobson

July 07, 2015



An employee cleans a board during the preparations for the BRICS summit in Ufa, July 7.

The leaders of the world's biggest emerging economies will meet in Russia on Thursday for a powwow that Moscow hopes will demonstrate the futility of Western efforts to isolate the country.

The summit of the BRICS nations — Brazil, Russia, India, China and South Africa — that opens Wednesday in the Russian city of Ufa, some 1,170 kilometers southeast of Moscow, is expected to continue efforts to give emerging economies a more powerful voice.

According to Russian President Vladimir Putin, the summit will launch a new development bank and emergency currency reserve pool, each to be armed with $100 billion, which will be equivalent to the World Bank and International Monetary Fund (IMF).

For Putin, the gathering is a chance to show that despite Western sanctions over the Ukraine

crisis, Moscow is finding new, more powerful allies among the world's future economic kingpins.

But some analysts warned that China's dominance of the new BRICS risked turning the group's new projects into mirror images of U.S.-backed institutions like the IMF.

'Foiled U.S. Plans'

Many see the BRICS group has a fundamentally good idea, both for Russia and its fellow emerging economy partners.

"[The] BRICS have become a reliable buttress for Russia both politically and economically," said Vyacheslav Kholodkov, a department head at the Institute for Strategic Studies, a think tank that advises the Kremlin.

"They foiled U.S. plans to isolate Russia," he said at a round table discussion titled "BRICS as the Foundation of a Multi-Polar World" late last month.

The BRICS nations account for around 40 percent of the world's population and over 20 percent of global economic output. But their rising share of global wealth is not reflected in voting rights at the World Bank and IMF, where Western countries have outsize influence. A packet of reforms to the IMF that would give emerging nations a bigger voice has been blocked by the U.S. Congress since 2010.

"Emerging markets are regularly treated as almost second-class citizens by the dominant powers within the G7 [group of industrialized nations]," said Chris Weafer, senior partner at Macro Advisory, a Moscow-based consultancy. G7 members, which include the United States, Canada, Britain, France, Germany, Italy and Japan, play large roles within the operations of the World Bank and IMF.

The BRICS are "fighting for their rights," said Kholodkov.

Chinese Dominance

Yet some observers doubt the potency of the BRICS grouping.

Russia was forced over the past year to find new partners after it was cut off from its traditional markets and sources of capital by sanctions imposed by the U.S., EU and many of their allies on Moscow over its role in the Ukraine crisis.

Joining the BRICS sends a message to the West that sanctions aren't working to isolate the country, said Neil Shearing, chief emerging markets economist at Capital Economics.

But while the grouping neatly encapsulates Moscow's efforts to grow trade with developing countries, "the partnership doesn't really add up to much," he said. Trade between Russia and the other BRICS is still far below its annual turnover with the EU, historically its largest trade partner.

The growing dominance of China is also a potential hurdle. At its current growth rate of 7 percent, China will over the next 2 1/2 years expand its gross domestic product by an amount

equivalent to Russia's entire $1.8 trillion economy. During that period, Russia, which is mired in a recession, will likely see its economic output fall.

"While Russia has been pushing for the creation of the BRICS as a counterbalance to the G7, the real danger is that they are encouraging the creation of a vessel to extend China's global power, just as the G7 facilitates this for the U.S," said Weafer.

The new BRICS reserve fund is balanced heavily in China's favor, with $41 billion of the bank's $100 billion capital coming from Beijing. Russia, India, and Brazil will each contribute $18 billion and South Africa $5 billion, Russia's Central Bank said Tuesday.

New Order

Yet Russia may have reason to prefer its odds in a BRICS-led world order. Moscow has three things in its favor, according to Weafer: China needs it as a supplier of materials such as oil, gas and metals; Russia's military is more technologically advanced than China's; and Russia from its years as a Soviet superpower has more experience handling diplomatic scuffles.

All of this boosts Moscow's starting position in the BRICS structure, and could clinch for the Kremlin a better position than the one it has within organizations like the World Bank, IMF and G7, the later of which ejected Russia last year.

Some Russian analysts doubted that Beijing could lord its power over Moscow in the new BRICS grouping.

Kholodkov, the Kremlin adviser, branded the idea of Chinese domination a myth peddled by Western analysts.

Kholodkov trumpeted the equal voting rights adopted by the BRICS bank.

"The BRICS are being created to build democratic structures of management into the global economy," he said.

"Let's not follow Western propaganda."

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