

## Russia – A BRIC Country?

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### Introduction

Since the 2009 BRIC/SCO summit in Yekaterinburg, Russia has increasingly identified itself as a BRIC country. At that time, president Medvedev expressed dissatisfaction with the transatlantic system of rotating the IMF chairmanship between the EU and the USA, the status of the dollar as a world currency, and the discrepancy between share of votes in the IMF and actual financial contributions. The now former Russian president noted then that the 'BRIC summit should create conditions for a more just world order [...]'.<sup>1</sup> Also President Vladimir Putin has mooted ideas about a shifting world order, indicating that Russia should meet the 'Asia century' by cultivating extensive relations to China and by balancing US unipolarity.<sup>2</sup> Statements aside, several questions are evident: Is Russia in fact a BRIC country? Does it have the resources and the desire to play a role in what the Russian media have called 'a constellation of letters'?

### BRIC and status: Russian politics and the economy

The BRIC concept was originally all about economic growth, and not a vehicle for the promotion of foreign policies. True, there is a lot to gain for aspiring status seekers to embrace the concept. The Goldman Sachs Foundation asserted that the BRIC countries would outpace the US economy by 2018 and that the economy of Brazil alone would overtake that of Italy.<sup>3</sup> Any suggestions that power was moving from the West to the East were circumstantial, however, as the Sachs Foundation also opined that a new middle class would emerge and put its imprint on spending patterns, with increased competition for resources as a result. Hence, in 2010 it could be assumed that for Russia to fit into this pattern, the rising Russian middle class would have to be accommodated politically under conditions of sustainable economic growth. Moreover, the modernization and innovation drive of Medvedev would have to deliver concrete results – diversifying Russian exports away from energy and conventional arms, and opening doors to investment from abroad.

At the onset of 2012, Russia appeared to be more like a stumbling BRIC. First, the 2011 Russian Duma elections revealed that many voters from the generation that has benefited from the Putin stabilization drive have come to reject Putin's candidacy for another 6 years. The system of 'competitive authoritarianism' sustained by a dominant state-sponsored political bloc and the Medvedev–Putin tandem is once more being replaced by a dominant presidential system with leanings towards authoritarianism.<sup>4</sup> Second, Medvedev's long-promised modernization and innovation drive never encompassed political liberalization: it unfolded within the BRIC context as a means of attracting new investments to Russia. The latter failed to materialize, and Russia now faces a series of contradictions as regards both the structure of its exports to BRIC countries, and its own role as a BRIC country.

The major source of these contradictions is the 2008 economic crisis. In the period leading up to the elections, the Russian economy experienced the highest capital flight among the BRICs. In August 2011 alone, USD 500 million was taken out of Russian investment funds, and the drop continued.<sup>5</sup> The Russian Ministry of Finance estimated capital flight for 2011 to more than USD 80 billion, and that major capital investment cannot be expected before 2013.<sup>6</sup> In the course of one week in September 2011 alone, investors withdrew USD 315 million from Russian capital market portfolios, double the capital flight from China and India for that week, with Brazil attracting USD 30 million.<sup>7</sup> Indeed, the Russian press has also indicated that the Goldman Sachs prognosis of a lower global growth rate for 2012/2013 has made Russia look like an outsider within BRIC.<sup>8</sup> Also in oth-

1 *Rossiyskaya gazeta*, 17 June 2009, at: <http://www.rg.ru/2009/06/17/brik.html>

2 Ziegler (2009: 140).

3 'Is this the BRICs decade?', May 20, 2010, at: <http://www2.goldmansachs.com/ideas/brics/brics-decade.html>

4 Medvedev's promises of post-electoral appeasement such as greater flexibility for registering parties and presidential candidates had a hollow ring as the presidential campaign around Putin unfolded. Police and bureaucratic clampdowns on demonstrations have continued throughout the first part of 2012, reaching a peak at Putin's inauguration in May 2012.

5 *Kommersant*, 26 August 2011, at: <http://www.kommersant.ru/doc/1758355>

6 Reuters, 30 November 2011, at: <http://www.reuters.com/article/2011/11/30/russia-inflows-idUSL5E7MU31W20111130>

7 *Kommersant*, 19 September 2011, at: <http://www.kommersant.ru/doc/1776559>

8 *Kommersant*, 10 January 2012, at: <http://www.kommersant.ru/doc/1848183>

er sectors where the BRICs have been excelling, Russia falls short. On the ITK development index, measuring the use of internet technologies in government, among companies and in society, Russia is in 77th place, after India, China and Brazil, and even below Kazakhstan.<sup>9</sup> In sum, as the journal *Kommersant* claimed already in 2010, with average growth rates between 3 and 4 per cent, one could easily dismiss the term BRIC as a 'diversion in the world of imperialism'.<sup>10</sup>

	2008	2009	2010	2011
Russia	5.2	-7.8	4.3	4.3
China	9.6	9.2	10.4	9.2
Brazil	5.2	-0.3	7.5	2.9
India	6.2	6.8	9.9	7.4

Average growth in GDP as compared to the year before  
Source: Rosstat, 2011.

### Russia and the Other BRICs

Russia's relationship to the other BRICs reveals an uneven and contradictory pattern. Starting out in 2010, President Medvedev sought to transform Brazil into a Russian bridgehead in Latin America. This had a domestic policy dimension: Medvedev wished to diversify contacts struck by Igor Sechin with the Chavez regime, and to utilize Brazil to flag the importance of the BRIC constellation.<sup>11</sup> Russia pledged to support Brazil's bid for a permanent seat in the UNSC and an agreement to open direct dialogue between the countries' MFAs. Agreements on intellectual property and information security were signed, and a scientific-technical framework for cooperation was discussed.

In spite of being a major oil exporter, Russia had little to offer, however. Rather, the technology sought by Brazil for offshore was precisely the same that Russia covets for its own purposes in the Arctic. Also Medvedev's announced 'technological alliance' with Brazil, intended to encompass transfer of technology and bilateral joint ventures in high-tech innovation parks, seemed remote from realities. In 2009, Russia's trade with Brazil was USD 4.6 billion, down from 6.7 billion 2008; 85 per cent of this was fertilizers, and 2.7 per cent machine products. For Brazil, export to Russia was 94 per cent fertilizers.<sup>12</sup> As for arms trade, in 2008, Brazil signed a contract worth USD 300 million for the purchase of Mi-35 attack choppers from Russia. Brazil received 6 of a total order of 12 in 2009/2010.<sup>13</sup> By 2011, however, Brazil was debating whether to cancel the delivery of 12 choppers, due to slashes in the defence budget.<sup>14</sup> Indeed, Brazil is in no way a traditional arms trade partner for Russia. In the period 2003–2007, 64 per cent of Brazil's arms came from Europe, 17 from the USA, and 7 per cent from

Canada.<sup>15</sup> As for the suggestion that Russia should diversify its relations, Venezuela accounted for 7 per cent of all arms exports from Russia in the period 2005–2009, and was Russia's 4th largest recipient of arms.<sup>16</sup>

China–Russia relations have been seen as more of a success. Since 2000, Russia has secured rapprochement with China in the Shanghai Cooperation Organization (SCO). The SCO serves as a multilateral forum cementing Chinese–Russian regional power interests in Central Asia, but it also serves to redress their mutual relationship and normalize it. Progress has also been made bilaterally. Important milestones are the deal on the East Siberian Pacific Oil pipeline (ESPO) struck in 2008, and the delimitation agreement on the border along the Amur River. Moreover, Asia is a major market for Russian arms sales, accounting for 69 per cent of all conventional weapon sales in 2005–2009, much of which went to China. Russia has also been central in renewing the Chinese submarine fleet. Russia exports worth USD 26 billion went to China in the period from 1992 to 2006.<sup>17</sup>

Chinese economic growth and its considerable sovereign welfare funds (SWF) are both factors that potentially match Russia's energy-driven economy well.<sup>18</sup> These funds are intertwined with the state and the banking system, and investments and loans are used to meet strategic needs for China. Problems are mounting, however. Russia's export of arms to China has declined since 2006, and the 'Chinese–Russian strategic energy partnership' is suffering under a long on-going dispute over gas prices. Starting from Putin's visit to China in 2006, the building of a gas pipeline by Gazprom and CNPC was held up as the showpiece in a Russian–Chinese strategic energy alliance. For China, the pipeline represented a strategic effort to reduce its dependence on gas from the Middle East and Africa (90 per cent of all imports); for Russia, a gas pipeline with long-term deliveries at reasonable prices would reinforce state control over the unruly internal Eastern Siberian gas market. Since 2010, a price dispute has been pending, however, and when China and Russia were to sign multiple agreements on a strategic partnership in oil and gas in September 2010, China did not accept the pricing mechanism.<sup>19</sup> Also the celebrated strategic oil-relationship from 2008 has been precarious; when oil deliveries from the ESPO started in 2011, Rosneft and CNPC almost immediately clashed over prices on oil to China, Rosneft claiming unpaid bills of 40 billion USD for January 2011 alone.<sup>20</sup>

The disagreement over price has been driven by the fact that China through the SCO has secured multiple inroads to Central Asian states and can cultivate beneficial bilat-

9 *Kommersant*, 4 August 2011, at: <http://www.kommersant.ru/doc/1690100>

10 *Kommersant*, 20 September 2010, at: <http://www.kommersant.ru/doc/1498952>

11 *Kommersant*, 14 May 2010, at: <http://www.kommersant.ru/doc/1368232?isSearch=True>

12 Ibid.

13 'Russia Building New Military Muscle Chopper', *World of Defence* 19 April 2011, at: <http://worldofdefense.blogspot.com/2011/04/russia-building-new-military-chopper.html>

14 'Brazil may delay Russian chopper order', *RP Defence*, 15 April 2011, at: <http://rpdefense.over-blog.com/article-brazil-may-delay-russian-chopper-order-71753356.html>

15 *SIPRI Yearbook*, 2008, p. 308.

16 *SIPRI Yearbook*, 2010, p. 292.

17 Lien (2012: 108).

18 The IMF estimated these funds to account for USD 6 trillion in 2007, with China holding one third of the total. Bremmer (2010: 71).

19 Russia stipulated building two pipelines, capable of delivering 63 bcm annually, and China was willing to pay from USD 120 to 150 per tcm. Russia insisted on adjusted global market prices, however, ranging from USD 180 to 220 per tcm – still lower than the European gas market price of USD 308 per tcm. *Kommersant*, 27 September 2010.

20 *Kommersant*, 18 March 2011, at: <http://www.kommersant.ru/doc/1602609?isSearch=True>

eral relationships with them. The showpiece in this strategy was the 2006 agreement to construct a Turkmenistan-Uzbekistan-Kazakhstan-China gas pipeline. Turkmenistan carried the costs of building a first branch in 2007, and the first gas was delivered in 2009. By 2013, the capacity of this pipeline is to be 40 bcm annually, at a fixed low price of USD 120–165 per tcm. In 2009, China offered Kazakhstan a USD 10 billion credit against access to the strategic energy sector of the country. In 2011, China and Kazakhstan agreed to construct a third branch of the Turkmenistan-Uzbekistan-Kazakhstan-China gas pipeline, with a capacity of 25 bcm annually, all while Russia and China failed to agree on gas prices.<sup>21</sup> Also Uzbekistan, the second largest producer of gas in Central Asia after Turkmenistan (65 bcm gas annually) has been courting China. In 2010, Karimov signed a framework agreement with CNPC to deliver 10 bcm annually to the gas pipeline.<sup>22</sup> Moreover, in 2011, Karimov made a visit to China and secured promises of a USD 5 billion direct investment in the Uzbek energy and banking sector.<sup>23</sup>

Russia has succeeded in bringing China in on some of its modernization projects. In 2011, while holding back on the strategic energy partnership due to the price disputes, Russia secured an agreement on setting up a green energy consortium with China on renewable bioenergy, as well as a consultative agreement with the Chinese Development Bank and the Chinese Bank of Trade and Commerce on access to the Chinese bond market. Finally, China has set up a USD 5 billion credit line for the extraction of coal and minerals in the Baikal region and the development of hydropower projects.<sup>24</sup> Still, this far from enough for Russia to match China's rising competitiveness. Since 2006, no major arms export deals have been made with China, and China insists that the cooperation should shift to trade in high technology, a move Russia has been resisting for obvious reasons: concerns that China will copy Russian technology for resale to third countries.<sup>25</sup> Since 2010, Russia has blocked the sales of engines for aircraft fighter FS-1 to China, as China uses these to equip the FS-1 and compete with the MiG-29.<sup>26</sup>

China is no simple BRIC partner for Russia. As the only actor with significant economic strength to give direct credit lines to SCO members, China has the ability to put rewards behind support in the organization. For instance, the 2009

credit-line deal with Kazakhstan was complemented by another deal on swapping currencies (the tenge against the yuan) to the amount of USD 1 billion, thereby twinning the tenge and the yuan closer together.<sup>27</sup> Interestingly, Russia has lobbied for India's participation in the SCO to balance China.<sup>28</sup> Also in the CIS region, China has increased its investments, ignoring Russia's definition of this as a sphere of special interests. In 2011, China and Ukraine signed arms sales contracts and infrastructure investment contracts worth USD 2 billion, as well as a strategic partnership agreement, making Ukraine the third country in the CIS region with which China has such agreements (the others are Russia and Kazakhstan).<sup>29</sup> China has also provided credits and grants to Customs Union member Belarus, with which Russia is formally in a Union.<sup>30</sup> This does not challenge Russia's dominant position, though. Before 2008, the EU had 38 per cent of Belarus' trade, and Russia 33 per cent; since then, Russia's share has grown to 47 per cent. In 2009 alone, Russia stood for 82.5 per cent of all FDI investments in Belarus.<sup>31</sup>

India is the primary strategic partner for Russia in arms exports. Russia accounted for 77 per cent of all arms procurements in India in the period from 2005 to 2009.<sup>32</sup> According to Russian press data, India received one third of all arms exports in 2010, estimated at USD 16 billion.<sup>33</sup> This includes aircraft (SU-30MKI, MiG-29K), T-90 tanks, artillery (Smer-sh), and maritime missiles.<sup>34</sup> True, Russia's arms market has been under certain constraints. Firstly, the Russian-Indian relationship was put on hold in 2007, when India stopped financing the conversion of the aircraft carrier 'Admiral Gorshkov'. According to the agreement struck in 2004, the company Sevmash was to convert the carrier for a price of USD 970 million, with an additional price tag of USD 650 million for 16 aircraft to the carrier. India stopped financing the project in 2007, due to excessive expenditures, and a Sevmash corruption scandal surfaced in Russia over this deal in 2011.<sup>35</sup> Second, in April 2011, Russia lost the 'contract of the century' with India on the delivery of MiG-35 multipurpose fighters, to French Rafale and Eurofighter. Finally, Russia also failed to meet the deadline for delivering three frigates to India in August 2011. The contract was signed in 2006, with deliveries scheduled to start from April 2011.<sup>36</sup>

21 *Kommersant*, 17 June 2011, at: <http://www.kommersant.ru/doc/1661401?isSearch=True>

22 *Kommersant*, 11 June, 2010, at: <http://www.kommersant.ru/doc/1385399>

23 *NeGa*, 22 April 2011, at [http://www.ng.ru/cis/2011-04-22/5\\_karimov.html](http://www.ng.ru/cis/2011-04-22/5_karimov.html)

24 *Kommersant*, 17 June 2011, at: <http://www.kommersant.ru/doc/1661401?isSearch=True>

25 *Kommersant Vlast'*, 14 March 2011, at: <http://www.kommersant.ru/doc/1596785?isSearch=True>

26 The contract worth USD 238 million stipulated the sale of 100 engines to China, and was signed in 2005. There was also a framework agreement on delivering 500 engines, whereby China could potentially buy 1000, with a contract reaching USD 3.75 billion. These engines would equip the Chinese fighter FS-1, however, which competes with the Russian MiG-29. Apparently, however, the Russian agency allowed re-export of the engine to Egypt in 2007, and also to Nigeria, Saudi Arabia, Nigeria and Algeria. On the other hand, Chinese and Russian arms trade have competed for markets in Turkey (anti-aircraft systems) and Thailand (BTRs). <http://www.kommersant.ru/doc/1407757>

27 *Kommersant* 15 June 2011, at: <http://www.kommersant.ru/doc/1659838?isSearch=True>

28 Iran has also been flagged as potential SCO member, but according to the SCO Charter any state under sanctions from the UNSC cannot be a member.

29 The partnership agreement stipulates the rise of trade as a target: from USD 6.1 billion (2010) to 10 billion (2012). *Kommersant*, 20 June 2011, at: <http://www.kommersant.ru/doc/1663411>

30 In September 2011, China pledged a USD 1 billion credit line to Minsk, and a USD 11 million grant. China also secured a framework agreement with Belarus on Chinese investments in the privatization of Belarus industries. *Kommersant*, 26 September 2011, at: <http://www.kommersant.ru/doc/1777892> and Racz (2010).

31 Racz (2010: 19–22).

32 *SIPRI Yearbook*, 2010, p. 291.

33 *Kommersant Vlast'*, 14 March 2011, at: <http://www.kommersant.ru/doc/1596785?isSearch=True>

34 *Ibid.*

35 *Kommersant*, 16 April 2011, at: <http://www.kommersant.ru/doc/1623356?isSearch=True>

36 *Kommersant*, 25 August 2011, at: <http://www.kommersant.ru/doc/1757900?isSearch=True>



Despite this setback, the Russia–India strategic dialogues were renewed in October 2011. At a meeting with Prime Minister Putin, decisions were made to resume a programme of joint military exercises (Indra-2011), and a modernization project for aircraft. As recently as in December 2011, Russia and India signed a government memorandum linked to existing contracts on the delivery of 42 Sukhoi-30 MKI fighter aircraft to India.<sup>37</sup> This contract was hailed in the Russian press as a return to the Indian arms market after Russia had lost a tender to India in 2010. In January 2012, Russia also expanded the cooperation, agreeing to lease the nuclear submarine K-152 to India for 10 years.<sup>38</sup>

In sum, Russia's BRIC policies show strangely contradictory patterns of wishful thinking (Brazil), realist balancing (China and India) and increasing competition and lack of leverage (China). Russia's cultivation of multipolarity as a world order also offers little order to the CIS region, where states use China as a strategic partner while Russia tries to discipline smaller states. Questions remain as to whether the BRIC metaphor will have anything specific to offer Russia in terms of foreign policy dividends – or whether the concept is merely a smokescreen for hiding the deeper dependencies of Russia's structural position in the international system.

## Conclusions

Will Russia's BRIC association endure under the new presidency of Putin? Before late April 2012, Putin seemed in no rush to decide. He stayed on as Prime Minister until his inauguration in May, while the lame duck president Medvedev represented Russia at the Delhi BRIC summit in April 2012. As of late April, however, a new 'Asia strategy' has been emerging. Putin will not attach any significance to the BRIC status, but will instead seek to define Russia's foreign policy in terms of its strengths, not where it is doomed to underperform. Indeed, the adoption of a separate fund

for infrastructure investments in the Far East has shown that Putin intend to focus on Asian affairs, and perhaps also on bilateral Chinese–Russian relations. Moreover, most of the economic planning documents of the government recognize both India and China as economic competitors, not partners.<sup>39</sup>

What this means is another question. With his greater focus on national interests and security, Putin may well listen to what representatives from the security sector have been saying about the BRIC: that, in order to meet the challenges from transatlantic structures, Russia 'should fight diplomatically, using the organizations of the UN, SCO, and BRIC, while at the same time improving the quality of Russian armaments.'<sup>40</sup> This statement seems accurate in at least one sense: In addition to energy resources, armaments are major tools in Russia's status-seeking also along the BRIC axis, especially China and India. One brief conclusion also seems evident: Putin will seek to re-establish Russia's influence as a producer and exporter of arms, and also as an energy power. These are also the main ingredients in Russia's BRIC relations. And if Russia cannot make any meaningful contributions by calling itself a BRIC country, it might end up simply calling itself Russia.

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37 *Kommersant*, 16 December 2012, at: <http://www.kommersant.ru/doc/1839022?isSearch=True>

38 *Kommersant*, 19 January 2012, at: <http://www.kommersant.ru/doc/1853961>

39 Julian Cooper, 'Reviewing Russian Strategic Planning: The Emergence of Strategy 2020', *NDC Research Review*, NATO Defense College, 2012.

40 *Kommersant*, 22 December 2012, at: <http://www.kommersant.ru/doc/1839176>

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