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Cooperation to Ensure Economic Growth and International Security

The G20 and the BRICS on Trade and Investment: Trends and Policies¹

J. Wouters, S. Van Kerckhoven

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Abstract

International trade and investment declined sharply in the aftermath of the 2008 financial crisis. To coordinate policy responses in the wake of this crisis, the Group of Twenty (G20) was elevated to the leaders' level and the BRICS grouping of Brazil, Russia, India, China and South Africa was founded as a summit to gather leaders from the most important emerging economies. This contribution reviews the work of both fora to restore trade and investment. We show that, despite efforts to stimulate cross-border trade and investment, neither has returned to pre-crisis levels. This is especially the case regarding international investment for the G20 members, although the data show a revival of trade. In general, BRICS members have been able to recover more quickly. Although their decisions have not always been implemented by members, the G20 and BRICS have proven to be effective fora for coordinating efforts and compliance has been rather high. However, this contribution argues that more can be done, especially regarding investments. The future will tell whether these two bodies will continue to be complimentary and whether they will be able to withstand protectionist and nationalist reflexes.

Key words: G20; BRICS; trade; investments; FDI; crisis; global governance

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¹ The editorial board received the article in March 2017.

Introduction

The 2008 financial crisis originated in the United States but had global repercussions. As the first effects of the crisis unfolded in Anglo-American financial markets it became apparent that strong interlinkages between financial markets would lead to a world-wide financial crisis. Moreover, the financial turmoil soon spilled over into the real economy and had a significantly negative impact on a variety of macroeconomic variables [Stiglitz, 2010]. The impact of both the collapse of financial markets and the real economy resulted in a global economic recession. Originally, it was assumed that the weak integration of the economies of the least-developed countries (LDCs) with the global financial markets would act as a buffer against the fallout of the crisis [Bhattacharya and Dasgupta, 2012]. However, this downturn created havoc in the economies of the LDCs as well as in the major developed and emerging economies. The crisis was truly global.

To move from a global downturn to renewed growth, certain policy measures had to be undertaken. Two of the most promising avenues to relaunch national and global economies are cross-border investments and trade. However, both trade and investment were seriously negatively affected by the crisis. Thus, effective leadership was a prerequisite to get back on track.

Due to ever-increasing economic globalization, nation-states are no longer able to single-handedly boost their investments and trade without affecting other economies. Indeed, the contemporary nation-state is subject to both bottom-up (through newly empowered regions, provinces and municipalities) and top-down (from supranational organizations) dynamics that greatly diminish its ability to implement its preferred policies.

To withstand pressure to employ protectionist and beggar-thy-neighbour policies, the major economies had to look for cooperation and leadership elsewhere. As a result, they came together in two major steering bodies: the Group of Twenty (G20) and the BRICS grouping of Brazil, Russia, India, China and South Africa. Cooperation in these bodies allows members to reap certain benefits. As argued by Van Kerckhoven and Crombez [2015], these fora allow countries to agree upon a focal equilibrium when many options are available, provide a forum for bargaining and information transmission and allow for “package deals” whereby each member can gain. Moreover, since both bodies are informal, they give members a certain amount of room to manoeuvre.

Through their summitry, the G20 and the BRICS are among the most important global governance mechanisms. Both are located at the nexus of global decision-making which allows them to play a significant role in the decision-making of trade and investment policies. In this context, this contribution explores the question of whether the G20 and the BRICS helped to overcome the fallout of the crisis, and if so, how.

Following a discussion of G20 and BRICS summitry in section two, we undertake an analysis of the impact of the financial crisis on the world and the members of these bodies in section three. Section four examines the decisions taken by the G20

and the BRICS regarding trade and investment. Particular attention is devoted to the compliance of the members with decisions taken at the G20 and the BRICS summits. Our contribution concludes with summary remarks, including recommendations for the future.

Leaders in Global Governance: G20 and BRICS Summitry

The contemporary global economy involves a wide variety of actors, including but not limited to states, international organizations, multinational enterprises, non-profit entities and various other bodies.

The ever-increasing globalization of economies ensured that national measures fell short in providing the responses needed to the crisis and it was recognized that co-operation was the only way forward. Countries gathered to address some of the major flaws that caused the crisis and to attempt to rapidly relaunch the global economy. In this context, the BRICS was established and the G20 was elevated to ensure and steer recovery after the financial and economic crisis.

The G20 contains 20 systemically important economies (the European Union (EU) and 19 national economies). The premier goal of the G20 is to promote informal dialogue on a wide range of economic and financial issues among systemically important countries within the institutional framework of the Bretton Woods system (see [Kirton, 2013]). Equally important, the G20 aims to enhance cooperation between its members in order “to achieve stable and sustainable world economic growth that benefits all” [G20, 2008].

Initially, the G20 was founded in response to the Asian financial crisis and was composed of the finance ministers and central bank governors of its members. In its early years, the G20 as a forum of finance ministers proved to be a valuable forum for crisis management, but the relevance of the G20 decreased as the Asian countries slowly recovered [Woods, 2011]. When the global financial crisis hit the world in 2008, memories of the Asian financial crisis led to the rediscovery of the G20. The direct involvement of the leaders of G20 members was deemed necessary to provide prompt and strong responses to the global financial crisis [Helleiner and Pagliari, 2009]. Consequently, the G20 was elevated to the leaders’ level. Whereas the finance ministers of G20 members have continued to meet at an accelerating pace since 2009, the G20 leaders have met only once a year (except for 2009 and 2010 when two meetings a year took place). Additionally, since 2010, labour and employment ministers of G20 members have had their own yearly meetings. In general, the G20 has proven to be a forum where international coordination works rather well. Several observers have applauded the commitments made by G20 members as well as their subsequent implementation. The G20 has also been applauded for ensuring that the global financial crisis did not result in an even bigger backlash [Drezner, 2014]. However, it has also been argued that the G20’s commitments are not ambitious enough.

The G20's informal outlook and global inclusiveness (far more so than the G7/8) made it the most suitable body to deal with the issues that emerged since the 2008 global financial crisis. At the very least, the G20 represents a slow and incremental shift toward greater participation by emerging economies in global economic governance [Cooper, 2010]. As emerging economies are on par with advanced economies, the G20 is a pioneer compared to traditional international organizations [Beeson and Bell, 2009]. Furthermore, because the G20 involves nations' leaders rather than technocrats to whom authority is usually delegated, it can provide timely answers to issues which arise suddenly and has an enhanced ability to overcome policy differences among its members. Currently, the G20's agenda has broadened from its initial focus on crisis management to include structural economic issues [Wouters and Van Kerckhoven, 2011]. Most importantly, since its September 2009 Pittsburgh summit, the G20 has referred to itself as "the premier forum" for its members to discuss international economic and financial issues [G20, 2009, no. 19].

The leaders' G20 acted swiftly to provide responses to the global turmoil and observers have generally praised the G20 for being able to (at least) slow down and soften the global collapse [Kirton, 2013; Drezner, 2014]. After their success in dealing with the crisis, G20 summits evolved and assumed a more strategic outlook rather than providing emergency responses [Wouters and Van Kerckhoven, 2014, 2017].

Another important global governance body is the BRICS grouping of emerging economies made up of Brazil, the Russian Federation, India, China and South Africa (after 2010). In 2009, the leaders of the four founding states gathered in Yekaterinburg and held the first BRIC summit. The goal was to discuss proposals to improve the global economic situation, the reform of financial institutions and to foster cooperation and coordination in the future. In 2010, after the entry of South Africa, the grouping was renamed for the third summit to BRICS. The BRICS has discussed a variety of topics, and most importantly founded the New Development Bank (NDB) as an alternative to the World Bank and the International Monetary Fund (IMF) [for more on this, see Lesage, Debaere, Dierckx et al., 2013; Wouters and Van Kerckhoven, 2013]. So far, there have been eight annual summits. As the BRICS gathers together the most important emerging economies, its summits carry a certain weight. This is further amplified by the fact that all BRICS members are also members of the G20. The BRICS can be considered a grouping of regional powerhouses as its members are the most significant economies in their regions. As of 2015, they represent about half of the world's population and about a third of global production.

Currently, both the G20 and the BRICS can be seen as the main steering groups in the global economy [Wouters and Van Kerckhoven, 2017]. For that reason, this contribution further investigates their approaches to trade and investment as the way forward in relaunching the global economy.

Trade and Investment

Both cross-border trade and cross-border investment are important vehicles for the recovery of the global economy after the financial crisis and are often seen as significant catalysts for economic growth [Makki and Somwaru, 2004].

Domestic investments and trade have a long history, while international investments and trade are of a more recent nature. By allowing corporations, countries and individuals to transfer capital, goods and services across borders, considerable welfare gains can be realized. International investments allow for capital to shift to locations where it provides a higher return on investments, as well as allowing for more extensive portfolio diversification which in turn increases the risk/return ratio of an international investment portfolio. International trade allows for more specialization. Building on the idea of comparative advantage, this allows for more efficiency and hence more welfare through a better allocation of production. Due to the differences in endowments and assets among countries, the international dimension looks even more appealing in terms of bolstering growth. In this section, we take a closer look at the level of investments and trade over the last 20 years.

Investments

Figures 1 and 2 depict, respectively, the net inflow and outflow of foreign direct investment (FDI) in the world. They display a similar trend. FDI net inflows are the value of inward direct investment made by non-resident investors in the reporting economy. FDI net outflows are the value of outward direct investment made by the residents of the reporting economy to external economies. Inward direct investment, also called direct investment in the reporting economy, includes all liabilities and assets transferred between resident direct investment enterprises and their direct investors. It also covers the transfers of assets and liabilities between resident and non-resident fellow enterprises if the ultimate controlling parent is non-resident. Outward direct investment, also called direct investment abroad, includes assets and liabilities transferred between resident direct investors and their direct investment enterprises. It also covers transfers of assets and liabilities between resident and non-resident fellow enterprises.

The methodology for compiling these data varies between countries. For a given transaction, the receiving and the investing country often do not register the numbers in the same way. Since these differences are rather small, we provide figures for both only for global flows (Fig. 1 and 2), and will then focus on net inflows.

From 1970 until 1999, clear and strong growth occurred. The 1990s in particular saw a strong increase in FDI well above any historical records and higher than the growth in global economic growth and global trade. This steep rise was driven by the increased integration of financial markets and the enormous number of cross-border mergers and acquisitions. Moreover, emerging economies (and other developing countries) provided greater access to their capital markets. Cross-border mergers and acqui-

sitions were an important contributor to these inflows, reflecting the privatization of state-owned assets, especially in Latin America, and the purchase of distressed banking and corporate assets in several Asian economies in the wake of the 1997 financial crisis [IMF, 2003].

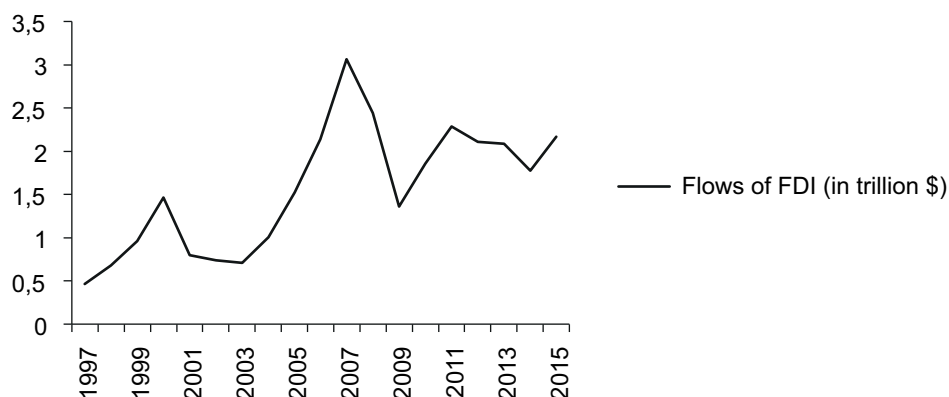


Fig. 1. Foreign Direct Investments, Net Inflows (1997–2015)

Source: World Bank, IMF.

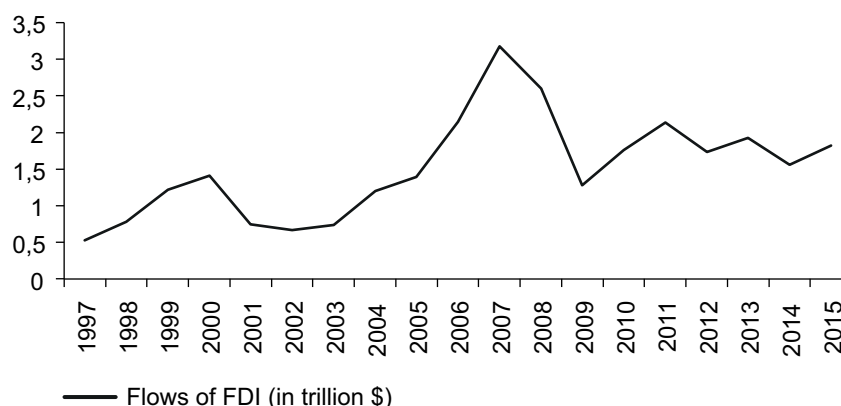


Fig. 2. Foreign Direct Investments, Net Outflows (1997–2015)

Source: World Bank, IMF.

As shown in Fig. 1 and 2, after a phase of rampant cross-border investments in the 1990s, growth consolidated in 2000. Moreover, until 2004 many large developed economies faced sluggish macroeconomic performances which made companies in these countries less attractive to investors [OECD, 2004]. However, by historical standards the level of FDI remained rather high.

The following years (2004–2007) were characterized by further integration of capital markets, the accelerated integration of the EU, increased global competition for

high potential companies and the increasing delocalization and diversification of firms. These trends caused a strong rise in FDI flows once again.

The financial crisis in 2008 saw FDI drop to the level of about five years prior, cancelling all the progress made in the years between and resulting in a halving of the total size of FDI. As shown, since 2010 FDI is increasing again, but in an unprecedentedly volatile way. More importantly, the financial crisis has affected both vertical (integrating production stages) and horizontal (tariff jumping) FDI flows [Stoddard and Noy, 2015]. This means that the near future will continue to bring more volatility.

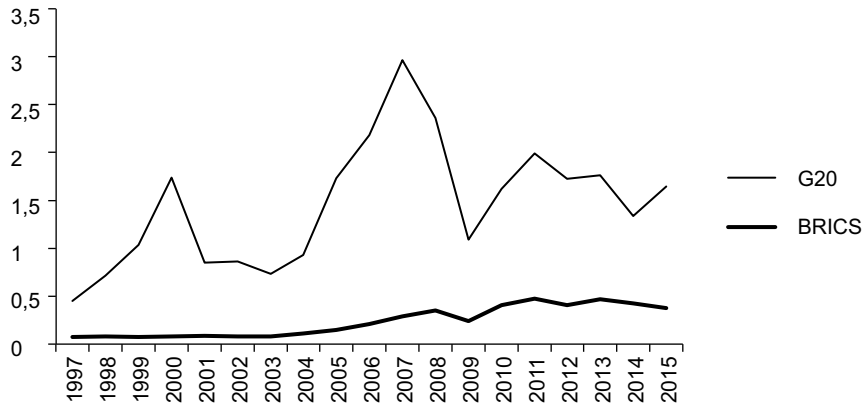


Fig. 3. FDI Net Inflow in the G20 and the BRICS (1997–2015) in \$ Trillion

Sources: World Bank, IMF.

Figure 3 illustrates total FDI flows in greater detail and with more attention to BRICS and G20 members. This figure clearly indicates a stark increase in FDI inflows prior to 2000 for G20 members. After a drop in 2001 and stagnation over the next three years, FDI net inflows for G20 members greatly rose again until 2007. The global recession following the financial crisis more than halved FDI net inflows from their 2008 level. This phase was followed by a short period of recovery, but since 2011 net inflows are again volatile and declining.

The story for the BRICS is slightly different. Stable net inflows until the end of the 1990s were followed by a small decline in the early 2000s. However, since 2004 there has been a significant rise in net inflows of FDI with only a small drop in 2009. As Fig. 3 clearly demonstrates, compared to the other countries in the world, the FDI levels for BRICS members rather quickly returned to pre-crisis patterns. Their current levels are already higher than before the crisis. This does not apply to the other G20 members or other countries.

Figure 4 displays the evolution of FDI net inflows for all G20 members over the last two decades. It is clear that the overall results for the whole grouping in Fig. 3 are heavily influenced by the stark decline in FDI flows in the U.S., EU and UK. Some other G20 member countries were not that heavily affected. For example, as shown in

Fig. 5, some BRICS members did not face a significant decline in the size of their net inflow of FDI.



Fig. 4. FDI, Net Inflows for the G20 Members in \$ Trillion

Sources: World Bank, IMF.

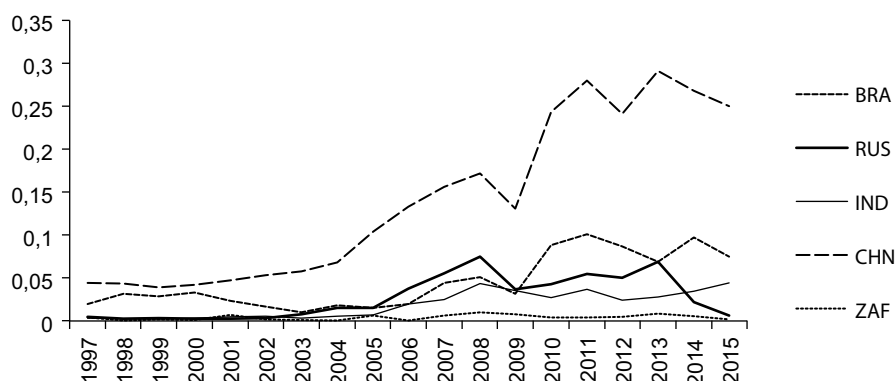


Fig. 5. FDI Net Inflows from the BRIC Countries (in \$ Trillions), 1997–2015

Sources: IMF and OECD.

Figure 5 shows that overall inflows of FDI were initially rather limited in the BRICS countries. Before 2000, only China and Brazil attracted decent inflows of FDI. For China, FDI greatly increased after 2000, whereas Brazil's FDI plummeted. The financial crisis affected China, Russia and Brazil most significantly. However, both

Brazil and China quickly got back on their feet and attracted more foreign capital after a one year downturn. Russia recovered more slowly before collapsing completely after 2013 for geopolitical reasons. India and South Africa are still not among the hot destinations for FDI.

So, even though the whole world was affected by the global financial and economic downturn, the BRICS showed much more resilience. Its attractiveness to foreign capital was not significantly been altered due to the financial crisis, which was not the case for the other G20 members.

Trade

Complementary to FDI, international trade can strongly bolster economic growth and may provide a path out of the crisis. Trade is a key means to fight poverty and enhance development, especially by improving developing countries' access to markets and by supporting a rules-based, predictable trading system. Moreover, by allowing countries to specialize according to the principles of comparative advantage, global welfare can be increased. Trade is an important pathway to global development. However, global trade governance mechanisms today face several challenges, including the fact that the Doha negotiations to reinforce the World Trade Organization (WTO) – the most important international organization dealing with these issues – remain stalled. The G20 has reiterated its support for the Doha Development Agenda at several meetings but has failed to reach agreement on some issues, including agriculture.² Solving this obstruction might foster an increase in trade.

Another source of increased trade is the significant number of regional and other preferential trade agreements (PTAs). For example, the EU has recently finalized a Comprehensive Economic and Trade Agreement (CETA) with Canada and is officially working toward a Transatlantic Trade and Investment Partnership (TTIP) with the United States. Other countries are also continuously exploring such options – the Trans-Pacific Partnership (TPP) was close to being implemented before it was torpedoed by U.S. president Donald J. Trump [Wouters and Van Kerckhoven, 2017b]. Figure 6 indicates the trends in international trade over the period 1997–2015.

Figure 6 shows the rise of international trade in the years leading up to the financial and economic downturn. Particularly significant growth with respect to total gross domestic product (GDP) occurred in the developing world. The crisis in 2008 resulted in a fall of about 8% in terms of trade with respect to GDP. This time the BRICS were slightly more affected than other G20 members. However, all G20 members recovered rather quickly in the years afterwards.

² G20 members at Hangzhou stated: “We reiterate our commitment to shape the post-Nairobi work with development at its center and commit to advancing negotiations on the remaining DDA issues as a matter of priority, including all three pillars of agriculture (i.e. market access, domestic support and export competition), non-agricultural market access, services, development, Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) and rules” [G20, 2016].

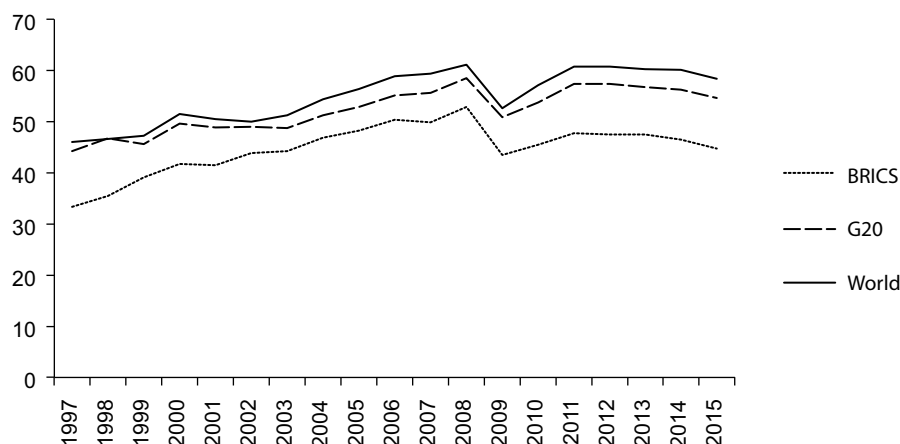


Fig. 6. World Merchandise Trade and Trade in Commercial Services, in Percentages of GDP

Sources: World Bank, IMF.

By about 2010, world trade was growing again although 2015 saw another sharp decrease mainly related to a few factors in emerging countries. These included the economic slowdown in China, a severe recession in Brazil, falling prices for oil and other commodities, exchange rate volatility and a lower demand for imports in Asia.

However, when considering percentage levels, we might encounter an endogeneity problem. Our results might be biased, since GDP also declined in the aftermath of the crisis. For that reason, Figure 7 introduces the dollar value of the net trade in goods and services.

Net trade in goods and services is derived by offsetting imports of goods and services against exports of goods and services. Exports and imports of goods and services comprise all transactions involving a change of ownership of goods and services between residents of one country and the rest of the world.

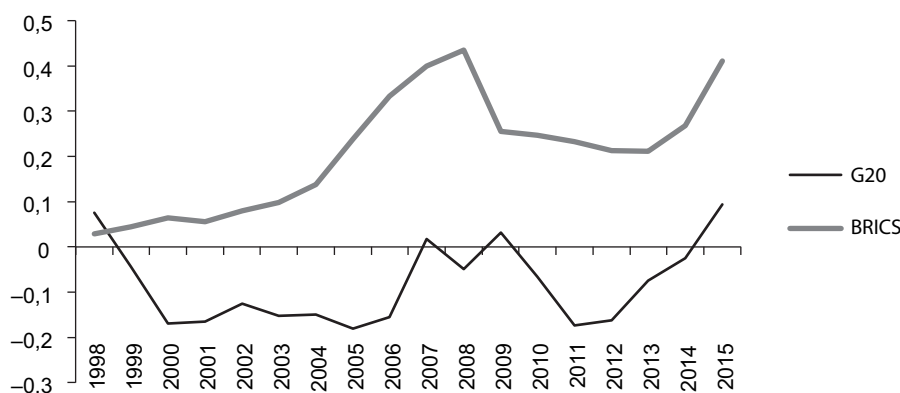


Fig. 7. Net Trade in Goods and Services in Current \$

Figure 7 illustrates the fact that developed economies started to run larger trade deficits after 1998, whereas the BRICS have been exporting significantly. The rise of trade surpluses in BRICS countries continued until the financial crisis, after which it declined significantly. It was only in 2014 that BRICS trade surpluses returned to pre-crisis levels. The other G20 countries ran larger trade deficits after the outbreak, but reduced these from 2012 onwards.

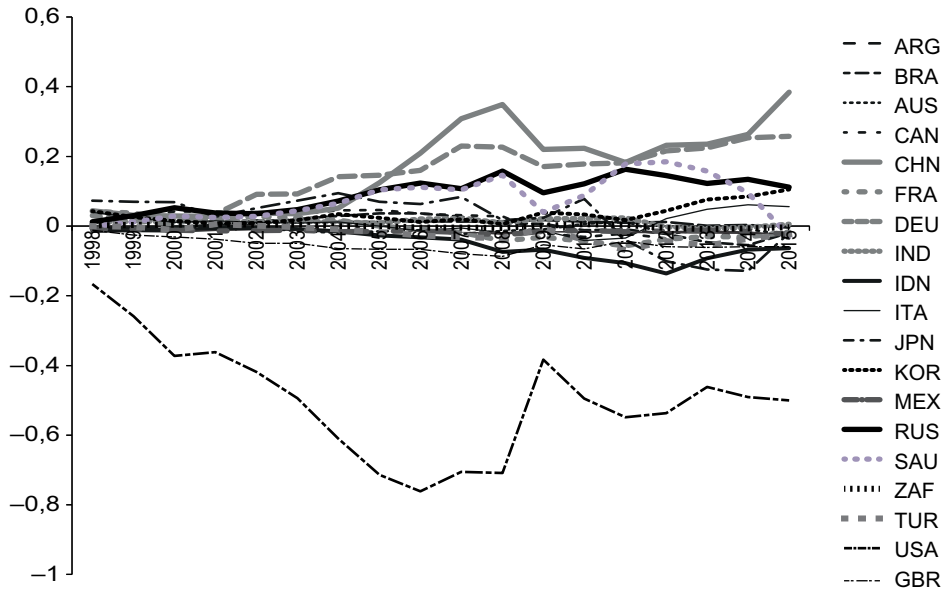


Fig. 8. Net Trade in \$ Trillion for All G20 Members (1998–2015)

Source: World Bank.

However, as shown in Fig. 8, G20 results are strongly impacted by the United States. With the dollar in high demand due to its status as the international reserve currency, the U.S. has long been able to run a significant trade deficit. European G20 members (excluding the UK), as well as China and Saudi Arabia (depending on the price of crude oil), have in general had positive trade surpluses over most years. Most striking is that 2008 clearly shows a convergence to the axis, meaning that trade indeed plummeted. However, after 2008 the results have been more diverse. For example, South Korea, Mexico and Germany made a strong recoveries, reaching higher levels than before the crisis. Some other countries are not recovering so well. Most noteworthy is that some of the BRICS members are struggling to increase their exports. The same holds true for the U.S. and Canada, even though their current negotiations regarding free trade agreements with Europe might help boost their exports (at least for Canada since the election of U.S. president Donald Trump).

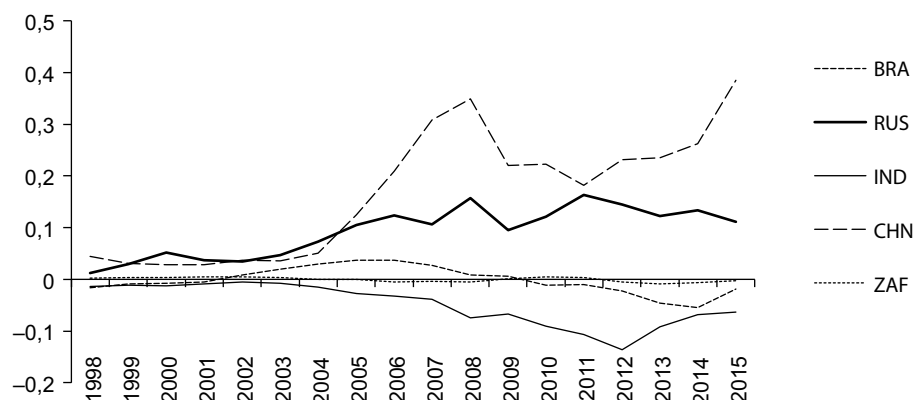


Fig. 9. Net Trade in \$ Trillion for All BRICS Countries (1998–2015)

Source: World Bank.

Figure 9 clearly demonstrates the differences among the different BRICS countries. China and Russia have consistently run a trade surplus. However, while Chinese trade numbers were greatly impacted by the financial crisis and took five years to return to their pre-crisis levels, this was not the case for Russia. Brazil shifted from running trade surpluses to running a trade deficit in the years following the crisis. India in general has run trade deficits, but these are slowly recovering since the crisis.

In terms of trade, we can see that both the BRICS and the other G20 members were affected by the crisis to a similar degree, and they have both been getting back on track.

The next section investigates in greater detail how the G20 and the BRICS have reacted to the fall in investments and trade after 2008. It pays particular attention to the most significant decisions taken at the G20/BRICS summits and considers the compliance of the members with these decisions.

The G20 and BRICS on Investment and Trade

The preceding section indicated that in terms of trade and investment most G20 and BRICS members are taking a significant amount of time to recover. Moreover, for certain members, returning to pre-crisis levels seems a very daunting task.

This section reviews the commitments made by both the G20 and the BRIC(S) across their different summits and examines their compliance with core commitments (for an in-depth explanation of compliance, see [Larionova, Rakhmangulov and Shelepov, 2016]). It should be noted that compliance assesses the implementation of G20/BRIC(S) decisions through national legislation and does not focus on the outcomes of these policy changes. Another limitation is that the compliance reports studied here focus on some of the main priorities of the specific summit; they do not always study compliance with decisions related to investments and trade. As such, the following sec-

tion gives an indication rather than a definitive answer to the question of compliance with the decisions taken at the G20/BRIC(S) summits.

The G20

The Commitments

Initially, the G20 was not much concerned with either trade or investments. At the 2008 inaugural leaders' meeting, trade and investment were only side issues whereas most attention was devoted to stabilizing the financial system. However, while trade and investment were not a cause of the crisis (even though the trade in financial derivatives surely was), they were heavily affected by the ensuing financial and economic collapse.

Nonetheless, the leaders did “recognize that these reforms will only be successful if grounded in a commitment to free market principles, including the rule of law, respect for private property, open trade and investment, competitive markets, and efficient, effectively regulated financial systems. These principles are essential to economic growth and prosperity and have lifted millions out of poverty, and have significantly raised the global standard of living” [G20, 2008, no. 12].

The G20 did “underscore the critical importance of rejecting protectionism and not turning inward in times of financial uncertainty. In this regard, they decided to refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization inconsistent measures to stimulate exports” [G20, 2008, no. 13].

At the 2009 London summit, G20 leaders noted the effect of the crisis on trade and investment and were concerned with their decline. They consequently reaffirmed “to refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions.” They further added that they would “minimize any negative impact on trade and investment of our domestic policy actions including fiscal policy and action in support of the financial sector” [G20, 2009, no. 22].

The same year, the G20 met again in Pittsburgh. The G20 noted that trade and investment are essential to restoring global growth. Apart from welcoming the swift implementation of the \$250 billion trade finance initiative, they reaffirmed the previous commitments. The leaders further reiterated their commitment to pursue trade liberalization [G20, 2009b, no. 48, 49].

The Toronto 2010 G20 summit declaration expanded on the role of trade and investment. The leaders at that meeting agreed to refrain from raising barriers or imposing new barriers to trade or investment until 2013. They further called upon several other international organizations to monitor their progress [G20, 2010, no. 35–38].

During the 2010 Seoul summit, G20 leaders paid more attention to trade and investment. They recognized the importance of free trade and investment for global recovery and stated their commitment to keeping markets open and to liberalizing trade

and investment to promote economic progress for all and narrow the development gap [G20, 2010b, no. 42–45]. Both trade and investment were also included among the nine key pillars of the Multi-Year Action Plan. For trade, the focus was on enhancing the trade capacity of developing countries and increasing market access. Regarding investment, the G20 decided to undertake action to support responsible value-adding private investments and job creation. This was focused on international investment.

The G20 further developed its approach to investment during the 2011 summit in Cannes (regarding trade, the G20 mostly reiterated its previous commitments). The focus was on investing for global growth with the aim of ensuring that the least developed economies had access to adequate financing and incoming FDI [G20, 2011, no. 69–84].

The G20 summit in Los Cabos in 2012 reiterated the members' support to open and free markets regarding both international trade and international investment [G20, 2012]. The G20 further recognized the importance of investment for boosting economic growth and committed to maintaining a supportive business environment for investors.

During the 2013 G20 meeting in Saint Petersburg the G20 made progress on investment issues. Leaders committed “to identify and start to implement by the Brisbane summit a set of collective and country-specific actions that tangibly improve our domestic investment environments such that they are more favorable to long-term investment financing and can lead to an effective increase of implemented projects, particularly in infrastructure and for SMEs” [G20, 2013, no. 36]. They further started working to facilitate domestic capital market development, to improve the intermediation of global savings for productive long-term investments, including in infrastructure, and to improve access to financing for SMEs [G20, 2013, no. 39]. Regarding trade, the G20 leaders extended until 2016 their standstill commitment regarding protectionist measures [G20, 2013, no. 44].

During the Brisbane 2014 summit, the Organisation for Economic Co-operation and Development (OECD), the WTO and the UN Conference on Trade and Development (UNCTAD) jointly released their monitoring report. This stated that some G20 members fell short of honoring their trade commitments but with respect to investments the report was far more encouraging [G20, 2014; OECD, WTO and UNCTAD, 2014].

The G20's 2015 summit in Antalya reiterated previous decisions. As before, the leaders reaffirmed their strong commitment to better coordinate efforts to reinforce trade and investment, including through Adjusted Growth Strategies. Inclusive Global Value Chains (GVCs) are important drivers of world trade. The leaders decided to support policies that allow firms of all sizes, and particularly SMEs, in countries at all levels of economic development to participate in and take full advantage of GVCs and encourage greater participation and value addition by developing countries [G20, 2015, no. 11].

The G20 continues to devote significant attention to trade and investment and is committed to boosting investment levels [G20, 2016, no. 7]. It thereby focuses on analysing and monitoring capital flows *inter alia* to create more innovation [G20, 2016, no. 12] and green growth [G20, 2016, para. 21, 23]. This builds strongly on the work of the IMF [G20, 2016, no. 17] and the OECD [G20, 2016, no. 19].

As before, the progress in terms of investment is based on the progress of the G20 Framework for Strong and Sustainable Growth, as well as the G20 Agenda Towards a More Stable and Resilient International Financial Architecture and the G20 Strategy for Global Trade Growth. The G20 also endorsed the G20 Guiding Principles for Global Investment Policymaking which will contribute to fostering an open, transparent and conducive global policy environment for investment. These principles focus on regulation and the creation of legal certainty [G20, 2016b].

At its 2016 summit in Hangzhou, the G20 members reiterated their determination “to ensure a rules-based, transparent, non-discriminatory, open and inclusive multilateral trading system with the World Trade Organization playing the central role in today’s global trade.” However, they also noted that there “may be legitimate issues for discussions in the WTO, including those addressed in regional trade arrangements (RTAs) and by the B20.” The G20 also argued that “WTO-consistent plurilateral trade agreements with broad participation can play an important role in complementing global liberalization initiatives.” In conclusion, however, they reiterated their commitment and support for international trade as a means of boosting growth: “We reiterate our opposition to protectionism on trade and investment in all its forms. We extend our commitments to standstill and rollback of protectionist measures till the end of 2018, reaffirm our determination to deliver on them and support the work of the WTO, UNCTAD and OECD in monitoring protectionism. We emphasize that the benefits of trade and open markets must be communicated to the wider public more effectively and accompanied by appropriate domestic policies to ensure that benefits are widely distributed” [G20, 2016]. Moreover, the G20 Trade and Investment Working Group (TIWG) was established and the G20 Strategy for Global Trade Growth focused on trade liberalization and lowering trade costs while trying to stay clear from protectionist measures. Moreover, the G20 endorsed the G20 Guiding Principles for Global Investment Policymaking which will help foster an open, transparent and conducive global policy environment for investment.

However, the G20 might soon be facing more issues related to protectionism. The G20 finance ministers met on 17–18 March 2017 in Baden-Baden. During this meeting, they noted the importance of trade to the global economy, but due to disagreement with the U.S. the anti-protectionist vow was dropped. After the meeting the U.S. treasury secretary, Mr. Mnuchin, stated: “We do have a new administration and a different view on trade.”³ This may generate further tensions [Wouters and Van Kerckhoven, 2017b] as was widely expected at the Hamburg summit of 7–8 July 2017.

³ “G20 finance ministers drop anti-protectionist pledge.” March 2017. Available at: <http://www.bbc.com/news/business-39315098> (accessed 14.08.2017).

Compliance with Commitments

The G20 has done rather well in living up to the commitments made at G20 summits. Regarding their commitments at the 2008 Washington meeting, G20 members scored 58% in terms of compliance over the first five months.⁴ During the 2009 London summit, G20 members declared that they would “minimise any negative impact on trade and investment of our domestic policy actions including fiscal policy and action in support of the financial sector.” Here it was found that half of the G20 members fully implemented this commitment in the first five months after the summit.⁵ The success of the next G20 meeting in Pittsburgh was much more varied in terms of compliance with the commitments related to trade and investment as shown after eight months.⁶ On the one hand, the commitment to withstand protectionism was not implemented (a compliance score of only 10%). On the other hand, the G20 members did live up to their commitment to promote open trade and investment (with a compliance score of 70%). Trade and investment were much higher on the agenda during the 2010 Toronto summit, where the need to refrain from protectionist measures was stressed. Sadly, with a compliance score of only 15%, the G20 failed to live up to its commitments in the first four months after the summit [G20 Toronto Summit Final Compliance Report].⁷ As the havoc after the crisis continued, the 2010 Seoul summit broadcasted an even worse view when it came to protectionist matters (compliance score: -0.05).⁸

By the 2011 Cannes summit, G20 members had made some progress rolling back protectionist measures (compliance score: 0.25). Regarding cross-border investment in particular, the emerging economies undertook certain measures to attract and balance the capital in and outflows.⁹ The 2012 Los Cabos summit reaffirmed the previously stated commitment to refrain from protectionism. Again, the compliance score was 0.25. Regarding the maintenance of a supportive business environment, G20 members complied to a much larger degree (compliance score: 0.95).¹⁰

The 2013 St. Petersburg summit focused more heavily on investment and this paid off in terms of compliance (score: 0.85). This was offset by very poor compliance with standstill commitments on trade (compliance score: -0.35).¹¹ At the 2014 G20 summit

⁴ “G20 Commitment on “Rejecting Protectionism” Compliance Performance Report.” Available at: <http://www.g20.utoronto.ca/analysis/2009protectionism0331.pdf> (accessed 14.08.2017).

⁵ “G20 London Summit Commitments Compliance Report 2009.” Available at: <http://www.g20.utoronto.ca/analysis/hse/2009-london-compliance.pdf> (accessed 14.08.2017).

⁶ “2009 Pittsburgh G20 Summit Compliance Report.” Available at: http://www.g20.utoronto.ca/analysis/Pittsburgh_G20_compliance_report.pdf (accessed 14.08.2017).

⁷ “2010 G20 Toronto Summit Final Compliance Report.” Available at: <http://www.g20.utoronto.ca/analysis/2010toronto-compliance.html> (accessed 14.08.2017).

⁸ “2010 Seoul G20 Summit Final Compliance Report.” Available at: <http://www.g20.utoronto.ca/compliance/2010seoul-final/index.html> (accessed 14.08.2017).

⁹ “2011 Cannes G20 Summit Final Compliance Report.” Available at: <http://www.g20.utoronto.ca/compliance/2011cannes-final/index.html> (accessed 14.08.2017).

¹⁰ “2012 Los Cabos G20 Summit Final Compliance Report.” Available at: <http://www.g20.utoronto.ca/compliance/2012loscabos-final/index.html> (accessed 14.08.2017).

¹¹ “2013 St. Petersburg G20 Summit Final Compliance Report.” Available at: <http://www.g20.utoronto.ca/compliance/2013stpetersburg-final/index.html> (accessed 14.08.2017).

in Brisbane the G20 members scored high (compliance score: 0.7); however, when it came to trade compliance was once again much lower (compliance score: 0.25).¹² The commitments regarding trade did not expand during the 2015 G20 summit in Antalya. Compliance remained at the same level as in the last few summits (compliance: 0.3). However, compliance with support of multinational trade agreements was much higher (compliance score: 0.6).¹³

For the 2016 summit in Hangzhou, only an interim report is publicly available. From this data, it seems that the trend of compliance with anti-protectionism continues (compliance score: 0.3). More progress was achieved when dealing with trade costs (compliance score: 0.7). Compliance with the G20 Guiding Principles for Global Investment Policymaking was very high (compliance score: 0.95).¹⁴

As shown from these compliance rates, the G20 members have been much better at implementing the decisions taken on investments than those on international trade. However, the previous section clearly indicated that in terms of outcomes, more should be realized in the field of investments. The G20 should be more ambitious in this area.

The BRICS

Commitments

BRICS summitry also focused on trade and investment with members voicing concerns about lower investments. In 2009, the BRIC stated at its Yekaterinburg summit that members “recognize the important role played by international trade and foreign direct investments in the world economic recovery.” The BRIC further called upon all parties to work together to improve the international trade and investment environment and urged the international community to keep the multilateral trading system stable, curb trade protectionism and push for comprehensive and balanced results of the WTO’s Doha Development Agenda [BRIC, 2009, no. 5]. The 2010 Brasilia meeting was more centered on currencies and their impact on trade and investment [BRIC, 2010, no. 12].

During the 2011 Sanya meeting, the BRICS decided to engage in joint research on economic and trade issues, as stipulated in its Action Plan. Its further stressed the need to refrain from protectionism and expand trade [BRICS, 2011].

During the 2012 Meeting in Delhi, the BRICS decided to invest and contribute to UNCTAD as well as to move forward with developing greener economies [BRICS, 2012, no. 17, 34].

¹² “2014 Brisbane G20 Summit Final Compliance Report.” Available at: <http://www.g20.utoronto.ca/compliance/2014brisbane-final/index.html> (accessed 14.08.2017).

¹³ “2015 G20 Antalya Summit Final Compliance Report.” Available at: <http://www.g20.utoronto.ca/compliance/2015antalya-final/index.html> (accessed 14.08.2017).

¹⁴ “2016 G20 Hangzhou Summit Interim Compliance Report.” Available at: <http://www.g20.utoronto.ca/compliance/2016hangzhou-interim/index.html> (accessed 14.08.2017).

Further work in this area was endorsed at the third BRICS trade ministers meeting on 26 March 2013. The ministers approved the BRICS Trade and Investment Cooperation Framework as a basis for future coordination and cooperation on economic issues, including SMEs.¹⁵

In 2013 in Durban, ministers agreed to establish the New Development Bank, introducing a joint safety net by using a Contingent Reserve Agreement. Moreover, they reaffirmed their support for the multilateral trading system [BRICS, 2013].

The 2014 Fortaleza summit saw a deeper cooperation. As stated by the BRICS members: “We are committed to raise our economic cooperation to a qualitatively new level. To achieve this, we emphasize the importance of establishing a road map for intra-BRICS economic cooperation. In this regard, we welcome the proposals for a “BRICS Economic Cooperation Strategy” and a “Framework of BRICS Closer Economic Partnership,” which lay down steps to promote intra-BRICS economic, trade and investment cooperation” [BRICS 2014, no. 20]. Moreover, the BRICS reiterated its strong support to the WTO and the multilateral trading system. It further established the BRICS Information Sharing and Exchange Platform, intended to facilitate trade and investment cooperation [BRICS, 2014, no. 68].

The 2015 Ufa BRICS summit was ambitious regarding progress in the fields of trade and investment. The BRICS decided to support the creation of a platform of joint discussion for trade cooperation amongst BRICS countries through enhanced dialogue [BRICS, 2015, no. 13]. It further adopted The Strategy for the BRICS Economic Partnership as the key guideline for expanding trade and investment [BRICS, 2015, no. 17]. Again, it supported the WTO and UNCTAD as multilateral bodies for trade [BRICS, 2015, no. 21, 22]. The BRICS applauded progress in the implementation of BRICS Trade and Investment Cooperation Framework [BRICS, 2015, no. 23].

The BRICS consequently tried to push hard on increasing investments at the Goa summit in 2016. For these investments to take place, the BRICS focused on infrastructure investments and looked at the Multilateral Development Banks [BRICS, 2016, no. 29]. Members reaffirmed “their commitment to a strong, quota based and adequately resourced IMF” [BRICS, 2016, no. 30]. However, they also looked for solutions to boost investments elsewhere. More specifically, they reaffirmed “the important role played by the BRICS Interbank Cooperation Mechanism in expanding the BRICS countries financial and investment cooperation” [BRICS, 2015, no. 14, BRICS 2016, para. 5]. Moreover, much attention was directed at the New Development Bank, which would be an important vehicle to finance investments in infrastructure and sustainable development projects in BRICS and other developing and emerging markets [BRICS, 2015, no. 15; BRICS, 2016, no. 3]. The same holds true for the BRICS Roadmap for Trade, Economic and Investment Cooperation, where private companies cooperate with BRICS countries. Moreover, the focus has become more clearly the intra-BRICS investment and trade [BRICS, 2015b, II.1].

¹⁵ “Joint Communiqué of the Third Meeting of the BRICS Trade Ministers.” Fifth BRICS Summit 28 March 2013.

The BRICS further reiterated “that bilateral, regional and plurilateral trade agreements should be seen as complementary to the multilateral trading system” [BRICS, 2016, no. 34].

Compliance with the Commitments

For the 2009 Yekaterinburg summit, no compliance scores are available. For the 2010 BRIC summit, BRIC members performed rather in terms of their commitment to refrain from protectionist measures (compliance score: –1). Indeed, they all introduced protectionist measures.¹⁶ This shifted in the aftermath of the 2011 Sanya Meeting, where members had a compliance score of 0.4.¹⁷ The 2012 meeting in Delhi focused on UNCTAD and BRICS members committed to invest in its functioning. However, their efforts (or lack thereof) produced no results (compliance score: 0).¹⁸ The 2013 meeting pushed for adherence and support of the multilateral trading system. This was well complied with by BRICS members (compliance score: 1). Moreover, Brazil and China engaged in additional international investments.¹⁹ The 2014 Fortaleza summit failed to produce significant compliance with regard to trade and the support of the WTO and the multilateral trading system as the BRICS members did not take any action with regard to reform of the WTO Dispute Settlement Body.²⁰ The decisions taken at the Ufa summit were not selected for monitoring in the compliance reports, so no data could be retrieved.²¹ For the 2016 BRICS summit, the compliance report has yet to be released.

This clearly shows that BRICS members have been more focused on trade and did not bother much about the implementation of the decisions they took. They remained natural host countries for foreign investments even during the crisis.

Concluding Remarks

The financial crisis resulted in a steep fall in cross-border investment and trade. Due to a return to more conservative and nationalist policies in the wake of the greatest recession since the 1930s, some countries are still struggling to reach or move beyond pre-2008 levels almost a decade later. However, multilateral cooperation can boost both investment and trade and can ensure that these become vehicles for recovery. The BRICS and the G20 are two of the steering bodies that can spur the development of

¹⁶ “2010 BRIC Brasilia Summit Compliance Assessment: World Trade.” Available at: <http://www.brics.utoronto.ca/compliance/2010-compliance-trade.pdf> (accessed 14.08.2017).

¹⁷ “2011 Sanya BRICS Summit Compliance Report.” Available at: <http://www.brics.utoronto.ca/compliance/2011-sanya.html> (accessed 14.08.2017).

¹⁸ “2012 BRICS Delhi Summit Compliance Report.” Available at: <http://www.brics.utoronto.ca/compliance/2012-delhi.html> (accessed 14.08.2017).

¹⁹ “2013 BRICS Durban Summit Compliance Report.” Available at: <http://www.brics.utoronto.ca/compliance/2013-durban.html> (accessed 14.08.2017).

²⁰ “2014 BRICS Fortaleza Summit Compliance Report.” Available at: <http://www.brics.utoronto.ca/compliance/2014-fortaleza.html> (accessed 14.08.2017).

²¹ “2015 BRICS Ufa Summit Compliance Report.” Available at: <http://www.brics.utoronto.ca/compliance/2015-ufa.html> (accessed 14.08.2017).

a deeper global governance architecture which in turn would allow for more growth and welfare creation.

Both bodies have been concerned with slow or even declining investment and trade growth in recent years. As a result, each has provided guidelines and proposed solutions. In terms of trade, the language of the G20 and the BRICS is remarkably similar. The biggest difference is the weaker language when it comes to PTAs for the BRICS, which is more supportive of the WTO. The G20 has been better in complying with its decisions than the BRICS, but both have been doing rather well in terms of outcomes.

When it comes to investments, the BRICS has returned more rapidly to higher investment levels compared to the other G20 countries. Moreover, it has also been pushing this more strongly on the global scale by establishing the New Development Bank. G20 members are still struggling regarding investments, even though compliance with the decisions taken at the G20 is rather high. Hence, the G20 might want to be more ambitious regarding investments.

One major concern is whether these two bodies will continue to complement each other's work. The focus of the BRICS on its own investment and development bank, as well as its focus on increasing the trade flows among BRICS members and other developing countries, might help the G20 to achieve some of its goals and ambitions. However, it might just as well put pressure on the G20 system.

Finally, one may observe that while all of the joint declarations and action plans might have spurred the global recovery, they failed in certain cases to produce a return to pre-crisis levels. The increasingly nationalist policies in several developed countries might further limit the openness necessary to return to or exceed pre-crisis investment and trade levels. Bilateral agreements might help but, due to their exclusiveness, may also fail to realize more open economies on a global scale.

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Позиции «Группы двадцати» и БРИКС по торговле и инвестициям: тенденции и политика¹

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Финансовый кризис 2008 г. вызвал глобальную рецессию. Объемы международной торговли и инвестиций существенно снизились. В целях координации проводимой антикризисной политики ведущие страны мира повысили статус «Группы двадцати» до высшего уровня, предполагающего участие лидеров стран-членов, и создали группу БРИКС, которая объединила лидеров крупнейших стран с формирующейся рыночной экономикой.

В рамках данной статьи авторы исследуют деятельность обоих объединений в сфере торговли и инвестиций. Они показывают, что в общем и целом страны оказались неспособны вернуться на свой предкризисный уровень, несмотря на усилия по стимулированию трансграничных торговли и инвестиций. Особенно это касается международных инвестиций в странах «Группы двадцати», тогда как данные по торговле свидетельствуют о некотором оживлении. В целом члены БРИКС смогли восстановиться после кризиса более быстрыми темпами. Саммиты «Группы двадцати» и БРИКС показали свою эффективность в вопросах координации проводимой политики. Принимаемые на саммитах решения не всегда выполняются странами-членами, но все же уровень их выполнения достаточно высокий. Авторы статьи настаивают, что можно достичь большего, особенно в сфере инвестиций. БРИКС более эффективна в вопросах развития сотрудничества, притом что все члены БРИКС входят в состав «Группы двадцати». Время покажет, будут ли и впредь эти два объединения дополнять друг друга и смогут ли противостоять протекционистским и националистическим экономическим тенденциям.

Ключевые слова: «Группа двадцати»; БРИКС; торговля; инвестиции; прямые зарубежные инвестиции; кризис; глобальное управление

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G20 and the Development of a New Global Governance Mechanism¹

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Abstract

The main objective of this article is to analyse the new global governance mechanism developed at the G20 forum by nineteen individual countries, along with the European Union (represented by the European Commission and the European Council), cooperating with international organizations (IOs) and government officials (GOs). In the subsequent sections, I argue that the new mechanistic and praxis-oriented mechanism of global governance is built on the nexus between (1) the G20 acting as a hub of multi-level cooperation and as an apex systemic risk manager; (2) IOs offering expertise on specific issue areas; and (3) GOs as sherpas, or ministers responsible for specific subjects, who are able to meet before and after commitments, and are endorsed by and influence the iteration leaders use at subsequent summits to soften difficult issues. The mechanism represents a departure from the Schumpeterian “creative destruction” process, understood in broader terms as not restricted solely to the role of entrepreneurs and innovations, but extended also towards global politics and institutions (norms, systems, and organizations). As shown in G20 communiqués and declarations, the elite global governance institutions are providing valuable input to the G20 process. A good example of the G20 and IOs’ effective synergy is the relationship between the G20 and the OECD, which can be described as a “partnership of convenience.” The activity of sherpas, finance ministers, central bank governors, expert groups and similar sub-summit entities are also an essential component of the global governance mechanism. They are all responsible for major preparatory work before G20 summits. In conclusion, I argue that the successful spreading of this mechanism makes it possible to achieve ambitious objectives, such as (1) crisis response and closing global governance gaps, (2) enhancing international cooperation, and (3) building a capacity for international innovation.

Key words: G20; global governance; international organizations; government officials

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Introduction

Global governance, a phenomenon which has defined innumerable times within different contexts, is concerned with purposeful acts and non-tacit arrangements, and is

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neutral between activities and their outcomes. The presentations of its early versions highlighted its primary and distinctive feature of steering or governing, which departs from the rigid and hierarchical world of governments, top-down control and forced adjustments [Rosenau and Czempiel, 1992; Finkelstein, 1995]. Viewed this way, global governance has been described by the IR academia as governing without sovereign authority, steering a fragile vessel through raging seas, transcending national frontiers and doing internationally what governments do at home. Its essence has been the need for cooperation between governments and a number of non-territorial entities. As cogs in the global machinery, they all fall under the set of regularities labelled “complex interdependence” [Keohane and Nye, 2011], namely: (1) the existence of different channels of interaction (intergovernmental, transnational, non-governmental) that occur between actors of international relations; (2) the lack of a hierarchical positioning of problems in world politics, thus blurring the distinction between “low” and “high” as well as “internal” and “external” policy; and (3) the changing roles of international organizations. IOs were of minor importance after World War II but transformed into “control rooms” or “catalysts” of interdependence on a normative basis (principles, standards, procedures, shared values and collectively-achieved goals).

Actors of global governance, among which a special role is played by international organizations (e.g. the Organisation for Economic Co-operation and Development, or OECD) and global forums of cooperation bring high officials to the table – prime ministers, heads of state, as well as central bank governors or ministers (e.g. G7/8, G20). They have been arranged in a certain pattern, resembling a network of equilibrium points, set up under certain conditions in order to meet needs that emerge over time, and reflect the balance of power and interests. Over time, a change in the conditions in which international institutions operate has led to a mismatch between their resources and their declared objectives, as well as the new environment in which they operate. As a result, they may become more or less effective; if we speak metaphorically, they are more or less plugged into the grid. The emergence of a crisis may weaken them (as shown by the example of the G7), their disappearance (The Council for Mutual Economic Assistance, COMECON), put them in new roles (the OECD), or cause them to rise to unprecedented prominence (the G20), but without any guarantee that their special position will be preserved. Given this, global governance may not only denote “systems of rule at all levels of human activity – from the family to international organizations – in which the pursuit of goals through the exercise of control has transnational repercussions” [Rosenau, 1995, p. 13], but also set of mechanisms characterized by fluidity and a continual, never-ending interplay between deconstruction and reconstruction. This broader notion of governance can be conceptualized as creating the conditions for ordered rule and collective action where the outputs of governance and government may be similar but their gravity differs [Stocker, 1998; Dingwerth and Pattberg, 2006]. The dynamics of global governance, the interplay between emergence, disappearance and transformation, is a catalytic process which pushes international institutions to contribute to the effective management of collective problems. When they

work well, institutions perform at least four valuable functions. First, they facilitate burden-sharing by governments that otherwise could not contribute to collective obligations. Second, they serve as information providers to governments. Third, they help great powers keep multiple and varied interests from getting in each other's way diplomatically. Fourth, international institutions help reinforce continuity when administrations change [Keohane and Nye, 2011]. Above all else, strong, global institutions, fully represented by the new, plurilateral summit institutions (PSIs) (namely G7/8, G20 and BRICS), are burdened in the post-Westphalian reality with the responsibility for reconstructing beyond-the-border steering mechanisms. These international cooperation-oriented forums map out a new global governance mechanism, as decision-makers; both policymakers and stakeholders consider them good venues for frank discussions and sharing cross-national ideas on key policy matters [Pal, 2012, p. 16].

The main objective of this article is to analyse the new global governance mechanism developed at the G20 forum by 19 individual countries, along with the European Union (represented by the European Commission and the European Council), cooperating with international organizations (IOs) and government officials (GOs). It has been designed as a trans-border, adaptable steering mode which is subject to constant modifications. In subsequent sections, I argue that the new, mechanistic and praxis-oriented mechanism of global governance is built on the nexus between (1) the G20 acting as a hub of multi-level cooperation and as apex systemic risk manager; (2) IOs offering expertise on specific issue areas; (3) GOs, as sherpas or ministers, who are responsible for specific subjects and are able to meet before and after commitments are endorsed, and who influence the iteration by which leaders at subsequent summits soften difficult issues. The mechanism represents a departure from the Schumpeterian "creative destruction" process. In conclusion, I argue that the successful spreading of this mechanism makes it possible to achieve ambitious objectives, such as (1) responding to crises and closing global governance gaps, (2) enhancing international cooperation, and (3) building capacity for international innovation.

Rationale for the Emergence of a New Global Governance Mechanism and the Role of the G20

Global governance, as noted above, can be described as a set of mechanisms characterized by fluidity and the continual, never-ending interplay between deconstruction and reconstruction. The process of the deconstruction of institutional stability in the economic and financial domains of International Relations has been particularly visible since the 1970s, and has accompanied an increasing risk of crises. The low effectiveness of governments tackling the effects of crises has become evident, and so has the deficiency in supranational governance. It took, however, several deep breakdowns of global governance mechanisms to finally recognize that the ambitions of individual countries require the development of appropriate cooperation formulae, which would go beyond what has been hitherto considered international or intergovernmental. These pursuits

to find commonly accepted solutions accelerated after the outbreak of the 2008+ global financial crisis (GFC), that was born in the depths of the U.S. mortgage market. The six main narratives of the GFC, namely (1) a mortgage crisis, (2) a global banking crisis, (3) creative destruction, (4) a geopolitical shift, (5) a symptom of the inequality of capitalism, and (6) the opportunity to develop a green economic framework, began to resonate in the minds of policy-makers, who are always mindful of the main issues facing domestic policy and the preferences of their potential voters. Pragmatic reasoning led them to acknowledge the point of view of economists, who saw the GFC as a normal process, where destruction is followed by consolidation (or reconstruction) as an aspect of business and technology cycles [Inayatullah, 2010, pp. 91–92]. Therefore, economists and policy-makers once again called to mind the Schumpeterian “creative destruction” (restructuring) process which originally permeated the major aspects of macroeconomic performance, not only of long-term growth but also of economic fluctuations, structural adjustment and the functioning of factor markets [Schumpeter, 1942]. Managing the process of creative destruction, understood in broader terms to not simply include the role of entrepreneurs and innovations, but also that of global politics and institutions (norms, regimes, organizations), means providing appropriate responses to the tensions, crises and uncertainties generated by anarchy in the international environment. The development of a new global governance mechanism and emergence of a new institutional triad (G7/8 – G20 – BRICS) fits this pattern very well. These new (winning) structures, by taking the form of meetings (summits) of heads of state and government, and sharing the common feature of being created by a group of countries with certain common political, social and economic characteristics, became a synthesis resulting from the tension between the West and the non-West, which has increased since the end of the Cold War. The emergence of the new system was affected by such factors as: (1) growing demand for international cooperation in the context of recurring global financial and economic crises; (2) the ineffectiveness of existing triadic systems, namely the “Economic Triad” of western countries (U.S. – EU – Japan) and the “Institutional Triad” of international economic organizations (IMF – World Bank – WTO), against the threats and challenges emerging in times of turbulence, accompanying the formation of a post-Cold-War international order; and (3) the rising importance and aspirations of non-western states, mostly rejecting the Washington Consensus and “western” model of global governance [Rewizorski, 2015, p. 31]. On the one hand, the formation of a new triadic, multi-centric order in the area of global governance was a result of negative factors: tensions, crises and the inefficiency of existing structures. On the other hand, positive factors related to maximizing the relative benefits of cooperation served as a catalyst for change. To put it simply, the concerned states assumed that creating systems with some degree of institutionalization, and maintaining their flexibility, is particularly important in the context of the multilevel and multidirectional nature of interactions occurring at the interstate, transnational and non-governmental levels. These structures most commonly take the form of trans-governmental regulatory networks, which due to their flexibility and non-formalized nature are easy to fit into the formula of global governance.

It took a decade (1999–2008) for the G20 to become the apex forum tasked with tailoring an appropriate mechanism of global governance and smoothly responding to the various needs that have been raised by members of the international community. While the G7/8 and the most influential IOs became less plugged into the grid, the G20 was designed to be a club which consisted of “systemically significant” countries and the European Union, which at the very beginning assembled in order to inject stability into financial markets which were behaving wildly and almost derailed the world economy. The high point for the G20 (2008–2009), specifically two breakthrough leader summits in Washington (2008) and Pittsburgh (2009), gave this forum momentum and strengthened its image as an appropriate hub, steering a variety of institutional nodes in the G20 social network. The meeting of the leaders conducted in the heart of the United States drifted away from the G7/G8, which was often described as a “talking shop”²¹ [Lesage, 2007, p. 107; Debeare and Orbie, 2013, pp. 311–323], towards a G20 that leaders perceived rather as a “workshop,” “steering committee” or “high table” forum that is global in composition [Cooper and Thakur, 2013, p. 16]. In this context, the Washington summit set out the key actions to mitigate the financial and economic crisis, and initiated the process of applying them and building a response to the process of globalization by creating a permanent body (G20 Leaders). As Andrew Cooper and Paola Subacchi rightfully pointed out, this G20 meeting was innovative and indispensable, showing that while the G20 is a “systemic risk manager, and a bulwark against a restrictive forms of unilateralism,” it required improvements in its legitimacy and its efficiency for the world as well [Cooper and Subacchi, 2010, pp. 607–17]. Therefore it was a significant success. Heads of states, stuck together in the midst of a global depression, reaffirmed their belief that only free market principles, open trade and investment systems, and efficiently regulated financial markets can promote dynamism, creativity, and entrepreneurship, which are vital elements for accelerating economic growth, increasing employment, and eliminating poverty.

Since Washington, the task of recovery has been assigned to the G20. At the second breakthrough summit, in Pittsburgh, the G20 leaders decided to give a new status to the G20 and declared it the permanent, premier forum for economic governance (to the exclusion of the other 173 members of the United Nations). As one can read in point 50 of the G20 Pittsburgh Leaders’ Statement, “Today, we designated the G20 as the premier forum for our international economic co-operation” [G20, 2009]. Despite arguments that the G20, by excluding 173 countries, lacks legitimacy on the “input” side, in the sense that membership of this club cannot be reversed from the formula of systemic importance [Wade and Vestergaard, 2012], the self-proclamation of G20 as the apex forum of global economic and financial governance was generally well-received. It is enough to say that the Chinese delegation saw the shift in geopolitical

²¹ The G8 is frequently called a “talking shop” since its most notable output is communiqué language and rarely measurable targets or financial pledges.

power as “conforming with the tide of history” [Sinclair, 2009]. A few months after the summit, at the World Economic Forum in Davos in January of 2010, Korean President Lee Myung-bak stated “it is time for the G20 to set the post-crisis agenda, and to build the platform that will ensure the sustained and balanced growth of the world economy in the months ahead” [Lee Myung-bak, 2010]. The reference to 2010 summitry is not accidental, as in the widespread perception of G20 scholars, after the relative successes of the summits in Toronto and Seoul, the Group of Twenty entered an on-going phase of development and maturity. This was articulated by the dynamic shaping of its agenda and eagerness to create a new global governance mechanism, tailored to the needs and abilities of its members. The Seoul summit added development to the agenda, marking the beginning of an expansion of the G20’s economic and financial focus [Hajnal, 2014, p. 21]. This agenda expansion corresponds with the institutionalization of the G20, which according to Kirton [2013] crystallized into a club at the highest level, focused on deepening equality amongst its members. Since it is no longer merely preoccupied with economic issues, this global institutional structure has begun to radiate outside of Europe and North America [Martin, 2011], thus softening arguments about the deficit of the “input legitimacy” of the G20.

When subscribing to the view that the G20’s elevated status has made it the hub of international economic governance, it is valuable to mention differing opinions about the G20. These are commonly formulated from the perspective of critical political economy, an application of critical theory to political economics. Dissenters focus on the processes of policy coordination and consensus formation within the Gx structures (G7, G20). In particular, Gill [1997], Bayne [1995] and Cox [1996] argued that the G7/G20 system attempts to coordinate policies among member states – often with mixed results and various disagreements and tension, while binding states and institutions into a mutually interlocking set of practices and ideologies. Cox goes on to remark that the international institutions that support global capitalism are undergoing a “transnational process of consensus formation among the official caretakers of the global economy” which is aimed at maintaining the stability and legitimacy of global capitalism [Cox, 1996, p. 301]. This economics-based process, propelled by the engine of the Washington Consensus, isolates the hubs of global governance from any social goals. However, Cox’s argument regarding the role of the neoliberal and pro-market hegemony of such institutions as the G20 is difficult to defend, given the recent development of G20 outreach and engagement groups. These include Think 20 (think tanks), Labour 20, Business 20, Civil 20, Youth 20, and Women 20. The G20 outreach processes are a formal attempt by G20 leaders to engage various social sectors in G20 policymaking as well as an attempt to enhance the legitimacy and influence of the G20 and its policy proposals [Slaughter, 2015]; they are often overlooked by the critical political economy school. However, the analysis of the consequences of the G20 outreach goes far beyond the modest scope of this article and thus will not be explored here.

The Global Governance Mechanism and Its Components

Numerous challenges face the development of G20, such as: (1) the non-democratic behaviour of some G20 participants; (2) the risk of fragmentation within this club; (3) the mounting superficial public image of the G20 as “talking shop”; (4) difficulties accommodating the interests of the great powers (such as China, the U.S., Russia), medium-sized states (such as South Korea, Australia, Canada), and emerging powers (such as India, South Africa, Brazil, Turkey, Mexico), the EU and the rest of the “systemically important” G20 actors; and (5) finally, the concerns that moving the G20 agenda far beyond its economic core will bring forth a “Christmas Tree effect,” whereby it will be weighed down with too many issues. Nonetheless, the Group of Twenty’s eagerness to play the role of “systemic risk manager” has not been affected. The reform, or rather transformation of the group from an anti-crisis committee to a hub of multi-level institutionalization is noticeable. To secure this process, the G20 strives for close cooperation with international organizations (IOs) offering expertise on specific issue areas, and uses government coordinating measures (government officials, GOs) as sherpas, or ministers responsible for specific subjects, which meet before and after commitments are endorsed (Fig. 1).

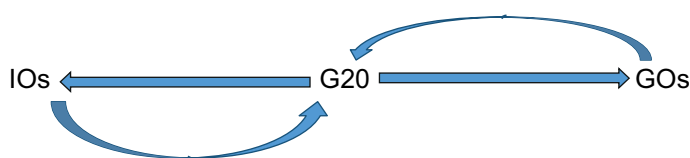


Fig. 1. Societal Structure of the Global Governance Mechanism

This triple actor approach (G20 – IOs – GOs) influences the iteration by which leaders at subsequent summits soften difficult issues. Combined, they create a societal structure which gives substance to the global governance mechanism overseen by the G20.

International Organizations and the G20

A good example of the effective synergy between the G20 and IOs is the relationship between the G20 and the OECD, which can be described as a “partnership of convenience.” The historically-forged partnership of convenience between the G20 and the OECD is growing in importance. It relies on a specific exchange: the OECD offers experience and knowledge, whereas the G20 provides a high level of political commitment to the OECD’s agenda, thereby increasing the relevance of the OECD within the architecture of global economic governance. This cooperation is underpinned by the economic dependency of the OECD on G20 members (Fig. 2).

These “family bonds” are not surprising, as the G20 mandate, which encompasses the coordination of policies and makes globalization a more harmonious and sustainable process, meets the analogous mandate of the OECD [Ramos, 2011, p. 334].

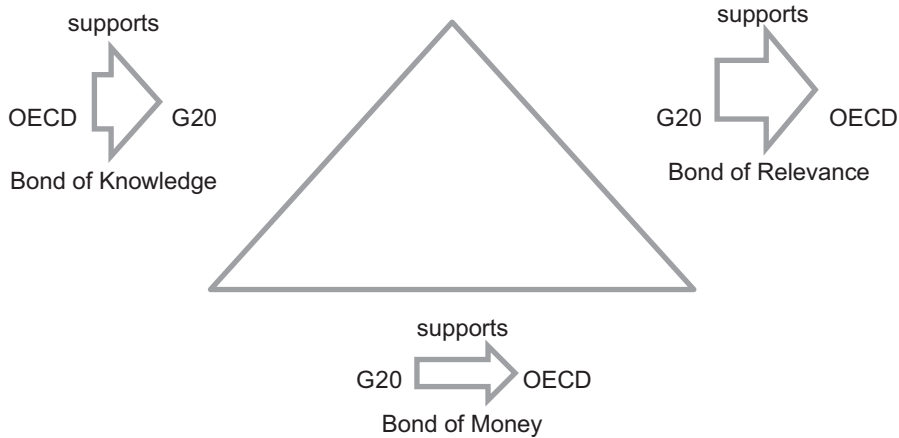


Fig. 2. OECD – G20 Triangle of Cooperation

Source: [OECD, 2016; Pal, 2012; Ramos, 2011].

The first bond between the OECD and the G20 is expressed in the group of twenty striving for the development of highly professional working groups, and thus looking for an expert community with the ability to provide counsel and administrative support in this area. It is worth noting that with the unfolding of the global agenda after the 2008 Washington summit, the G20 has become a hub of multiple epistemic communities, working groups and technical committees. During the summit in Toronto (2010) the G20 agreed to establish a Working Group on Development and mandate that it elaborate a development agenda and multi-year action plans to be adopted at the Seoul summit. This “body,” co-chaired by South Korea and South Africa, was adopted by the G20 leaders as part of the so called “Seoul Development Consensus for Shared Growth” and the “Multi-Year Action Plan,” which had been developed for the purpose of narrowing the development gap between poor and rich countries, and also reducing poverty in developing countries. Building on the G20 agreement reached in Toronto, the G20 leaders agreed to establish a G20 Working Group on Anti-Corruption, co-chaired by Indonesia and the United Kingdom [Rewizorski, 2014, p. 104]. These examples showcase the input of the OECD, which as an international organization supports the G20 with specialist information, policy advice and technical analysis. The OECD contributes to all stages of preparation for G20 summits. At the highest political level, the OECD Secretary General participates in the Leaders’ summit. The Global Governance and Sherpa Unit, under the supervision of the OECD Chief of Staff and Sherpa to the G20, coordinates all the contributions to the G20. These take various forms, depending on the deliverables and tasks assigned by the G20 members.

The G20 – OECD relationship is not unidirectional. The OECD, as an international organization, also benefits from the G20 process, which helps to coordinate its work, provide leverage to it, and where necessary injects the political momentum needed to break deadlocks. Hence the second bond between these two institutions is expressed in the aforementioned high level of political commitment to the OECD’s

agenda by the G20, thereby increasing the relevance of the OECD within the architecture of global economic governance. As shown in G20 communiqués and declarations, the OECD is placed amongst the elite global governance institutions, alongside the UN, IMF, World Bank Group, WTO, ILO, FSB, FATF and BIS, “providing valuable inputs to the G20 process” [G20, 2015]. A quantitative analysis of the Antalya communiqué found that the UN (including UNCTAD and UNFCCC) was referred to 10 times, IMF – 12, World Bank – 3, the OECD – 26, WTO – 4, ILO – 2, FSB – 11, FATF – 3, and BIS – 1 (Figure 3).

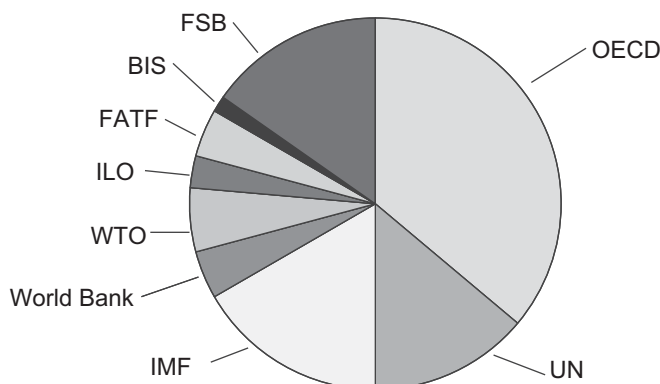


Fig. 3. Relevance of Selected IOs within the Global Economic Governance Architecture in the Antalya G20 Leaders' Communiqué [2015]

Source: [G20, 2015].

This dominant position was also occupied by the OECD in the Antalya G20 summit communiqué annex, consisting of agreed-upon documents, ministerial statements, working group documents, supporting documents and issues for further action. This organization has co-produced a series of documents with the G20 in pivotal areas, such as: (1) G20/OECD Report on G20 Investment Strategies; (2) G20/OECD Principles of Corporate Governance; (3) G20/OECD High-Level Principles on SME Financing; (4) Quantifying the Implementation of G20 Members' Growth Strategies (IMF – OECD Note); (5) OECD/INFE Core Competencies Framework on Financial Literacy for Youth; (6) OECD/INFE Policy Handbook on the Implementation of National Strategies for Financial Education; (7) Financial Education for Migrants and Their Families: OECD/INFE Policy Analysis and Practical Tools; (8) OECD/INFE Progress Report on Financial Education for MSMEs and Potential Entrepreneurs; (9) Toolkit to Enhance Access to Adaptation Finance for Developing Countries that are Vulnerable to the Adverse Effects of Climate Change Including LIDCs, Small Island Developing States and African States (OECD in Collaboration with the Global Environment Facility); (10) Climate Funds Inventory; (11) OECD Secretary-General Report to the G20 Leaders; (12) Effective Approaches to Support Implementation of the G20/OECD High-Level Principles on Long Term Financing by Institutional

Investors; and (13) OECD Secretary-General Report to G20 Finance Ministers with Its Annexes (“Reports on Possible Tougher Incentives for the Countries that Fail to Comply with the Global Forum Standards on Exchange of Information on Request” and “SMEs and Taxation”) [G20, 2015, pp. 8–11].

The third strong incentive for growing cooperation stems from the dependency of the OECD on G20 members for its budgets (see Table 1).

Table 1. G20 Member Countries’ Percentage Shares in the OECD Budget Contribution (2015)

The G20 Participants and OECD Member Countries from the EU	Percentage Share in the OECD Budget (EUR 383 mln = 100%)
United States	21.07
Japan	11.92
Germany	7.57
France	5.53
United Kingdom	5.21
Italy	4.35
Canada	3.87
Australia	3.28
South Korea	2.82
Mexico	2.71
Turkey	1.79
The rest of the European OECD member countries participating in the EU*	21.69

Note: * OECD members participating in the EU apart from the E4 (Germany, France, United Kingdom and Italy) include: Spain (3.11%), Netherlands (2.18%), Belgium (1.56%), Sweden (1.55%), Estonia (1.43%), Poland (1.43%), Slovenia (1.43%), Austria (1.36%), Denmark (1.21%), Finland (1.08%), Greece (1.06%), Portugal (0.99%), Czech Republic (0.96%), Ireland (0.95%), Hungary (0.81%), Slovak Republic (0.58%).

Source: [OECD, 2016].

The G20 members’ financial contributions to the OECD budget (EUR 383 mln), including that of the E4 countries (Germany, France, United Kingdom, Italy), accounted for 70.12% in 2015. However, if contributions to the OECD budget from non-E4 European OECD member states participating in the EU (21.69%) are included, it amounts to 91.81% (EUR 351.6 mln). This high financial dependence on G20 countries (even indirectly represented in this forum) suggests that OECD support is offered according to a “pay as you go” model, which explains why its attention is mainly focused on Europe.

The strong relationship between the OECD and G20 showcased above leads to the conclusion that international organizations with a transregional-reach (such as the

IMF, OECD, FSB, WB, FATF, BIS, G24, G77 and ASEAN+3), serving often as the Groups' technical assistance providers, occupy a prominent position in "the G20 galaxy." It is not only the participation of the IOs of member-states in the G20 which stabilize the galaxy (or network), but also the rapid institutionalization of the G20, that clears the way for plurilateral informal institutions to win out over the old formal multilateral organizations. This trend has been highlighted in the literature by Kirton, Larionova, and Savona [2010], who noted that this happened in order to assure that the Gx process provided IOs the resources and reforms it could not secure from states on its own. The Gx process has also created new international organizations, such as the FSB, that are separate from the IMF and born in a plurilateral form to manage the completion of designated tasks. While such bodies as the OECD and IMF have begun to play the role of helpers in the delivery of tasks shortlisted in the G20 (also G7), PSI focused on providing a high level of political commitment to the IOs agenda, thereby increasing their relevance within the architecture of global economic governance.

The G20 and Government Officials

According to the classical view, persons acting on behalf of states in international bodies are classified into three groups: (1) leading figures exercising political authority, normally heads of state, as well as heads of government and foreign ministers, together with those associated with the process of government (for example, a parliamentary assembly); (2) ambassadors and others sent abroad in connection with the bilateral exchange of embassies; and (3) the dispatch of a special mission [Hardy, 1969]. While in the first group the political figures mentioned may, within the bounds of the constitution, commit a state to a range of obligations or negotiate any agreement, the second group has to act under instruction but possesses a general right of representation, namely the right to represent the state in all aspects of its foreign relations. Special missions, on the other hand, though equally official, are entitled only to perform specific tasks as agreed upon between two states, and do not have broad authority in all spheres.

The G20, as a club of international cooperation, departs from the rigid and archetypical form of diplomatic activities in the international realm. Depending on the format of the forum (G20 Finance or G20 Leaders), the group takes advantage of the activity of finance ministers, central bank governors, ministerial forums as well as expert groups and similar sub-summit entities. Major preparatory work that precedes G20 summits is entrusted to sherpas and the personal representatives of the leaders.³² Usually, personal representatives are appointed for a period which lasts more than 12 months, as the tasks delegated to them are huge. They include holding consultations before upcoming summits, negotiating agenda items, the presentation of positions adopted by individual countries, reaching agreements on most important issues, as well

³ The term "sherpa" originates from the Tibetan language and means *sher* – east + *pa* – people. The name comes from the tribe of Sherpa people of Nepal, from among whom helpers and porters were recruited for Himalayan expeditions. With time, the word started to be used to describe all kinds of helpers.

as providing assistance and advice to the summit's host country. The preparatory process also includes sherpa consultations with non-government stakeholders such as the business sector, think-tanks and civil society groups. Some G8 members of the G20 use the same person as sherpa for both G8 and G20. The sherpas are assisted by deputy finance ministers ("finance deputies").

Table 2. Sherpa and Ministerial Meetings Schedule Leading up to the G20 St. Petersburg Summit

Date of Meeting/Summit	Level of Meeting/Summit
5–6 September 2013	G20 Leaders' Summit
5–6 September 2013	G20 Sherpas and Finance Deputies
5–6 September 2013	G20 Finance Deputies
25–26 July 2013	G20 Sherpas
19–20 July 2013	G20 Finance Ministers and Central Bank Governors
18–19 July 2013	Joint G20 Finance and Labour Ministers
18 July 2013	G20 Labour Ministers
18 July 2013	Labour Ministers With Social Partners
17 July 2013	Task Force on Employment
17 July 2013	Social Partners (B20 and L20)
9–10 July 2013	Energy Sustainability Working Group
8–10 July 2013	G20 Development Working Group
3–4 July 2013	Framework for Strong, Sustainable and Balanced Growth Working Group
20–21 June 2013	Business 20 Summit (B20)
18–21 June 2013	Youth 20 Summit (Y20)
13–14 June 2013	Civil 20 Summit (C20)
6–7 June 2013	G20 Finance Ministers and Central Bank Governors' Deputies
6–7 June 2013	Anti-Corruption Working Group
5 June 2013	Task Force on Employment and G20 Finance Deputies
3–4 June 2013	Task Force on Employment
11–12 May 2013	G20 Sherpas, St. Petersburg
18–19 April 2013	G20 Finance Ministers and Central Bank Governors, Washington DC
15–16 February 2013	G20 Finance Ministers and Central Bank Governors
4–5 November 2012	G20 Finance Ministers and Central Bank Governors
29–30 October 2012	G20 Sherpas
4–5 October 2012	G20 Development Working Group
4–5 October 2012	Agricultural Market Information System
1–2 October 2012	G20 Task Force on Employment
24–25 September 2012	G20 Finance Ministers and Central Bank Governors, Mexico City

Source: [Rewizorski, 2014, p. 149].

Sherpas, with the gradual broadening of the G20 agenda, are amassing more competences, which translates into fulfilling more duties. They usually meet 3–4 times a year and are generally well prepared to carry out tasks, as they usually hold important positions in governments. Table 3 outlines the G20 sherpas' government positions.

Table 3. G20 Sherpas in January 2014

Country	Sherpa/Position
Argentina	Cecilia Nahón, Ambassador of Argentina to the United States
Australia	David Gruen, Deputy Secretary, Department of the Prime Minister and Cabinet (PM&C)
Brazil	Enio Cordeiro Ambassador, Undersecretary for Economy and Finance, Ministry of Foreign Relations
Canada	Vincent Rigby, G20 Sherpa, Assistant Deputy Minister and G7 Foreign Affairs Sous-Sherpa
China	Baodong Li, Chinese G20 Sherpa and Vice Foreign Minister
European Union	Richard Szostak, G20 Sherpa, Diplomatic Advisor of President Juncker, European Commission
France	Laurence Boone, G20 Sherpa of the French President
Germany	Lars-Hendrik Röller, Economic and Financial Policy Advisor to the Federal Chancellor, G7– and G20–Sherpa
India	Suresh Prabhakar Prabhu, Minister for Railways and G20 Sherpa, Government of India
Indonesia	Rizal Affandi Lukman, Deputy Minister for International Economic Cooperation, Coordinating Ministry for Economic Affairs of the Republic of Indonesia
Italy	Armando Varricchio, Ambassador, Diplomatic Advisor to the Prime Minister and G7/G20 Sherpa <i>Prime Minister's Office</i>
Japan	Yasumasa Nagamine, Deputy Minister, Ministry of Foreign Affairs
Mexico	Carlos de Icaza, Deputy Minister of Foreign Affairs & G20 Sherpa, Ministry of Foreign Affairs of Mexico
Russia	Svetlana Lukash, G20 Sherpa, Deputy Chief of Presidential Experts' Directorate, Executive Office of the President
Saudi Arabia	Hamad Albazai, Vice Minister of Finance
South Africa	Ambassador Jerry Matjila, Director-General: Department of International Relations and Cooperation
South Korea	Hye Min LEE, Ambassador for International Economic Affairs, G20 Sherpa
Turkey	Ayşe Sinirlioğlu, Ambassador, Deputy Undersecretary for Economic Affairs and G20 Sherpa, MFA
United Kingdom	Tom Scholar, Second Permanent Secretary, Prime Minister's Europe Advisor
United States of America	Caroline Atkinson, Deputy Assistant to the President and Deputy National Security Advisor for International Economic Affairs

Source: G20 Sherpa list. Available at: <http://www.g20civil.com/sherpateam/sherpa-list.php> (accessed 1 February 2017).

Noticeably the G20 sherpas are recruited mostly from the economic and financial sector. They cooperate with ministers dealing with the sector and central bank governors, who are supported by numerous expert and working groups. As a rule, these groups are co-chaired by one advanced and one emerging country member of the G20 [Hajnal, 2014, p. 41]. The German presidency of the G20 plans to organize six ministerial meetings, including a meeting of finance ministers and central bank governors. In the run-up to the G20 summit, the German host established a time and place for the specialized meetings (Table 4)

Table 4. Overview of the G20 Specialized Ministers' Meetings in 2017

Ministry	Venue	Date
Meeting of G20 Agriculture Ministers	Berlin	22 January 2017
Meeting of G20 Foreign Ministers	Bonn	16–17 February 2017
Meeting of G20 Finance Ministers and Central Bank Governors	Baden-Baden	17–18 March 2017
Meeting of G20 Ministers in Charge of Digitalization	Düsseldorf	6–7 April 2017
Meeting of G20 Labour Ministers	Bad Neuenahr	18–19 May 2017
Meeting of G20 Health Ministers	Berlin	19–20 May 2017

Source: [G20, 2017].

The meeting of G20 agriculture ministers in Berlin, where participants agreed on the G20 Agriculture Ministers' Declaration and Action Plan, focused on the sustainable use of water, digitalization, and committed members to produce a roadmap for ending the use of antibiotics in agriculture to promote growth [G20, 2017]. An analysis of the declaration demonstrates the presence of the mechanism of global governance in the sector that is based on the G20–IOs–GOs nexus. The G20 Ministers of Agriculture⁴ highlighted the support of G20 economies for the 2030 Agenda for Sustainable Development (administered by the UN),⁵ the Paris Agreement on climate change (administered by the UNFCCC), combating antimicrobial resistance and contributing to a “one health” approach by using OECD, WHO and FAO expertise, finally developing the Agricultural Market Information System (AMIS) launched in 2011 by the G20 agriculture ministers.⁶ The short declaration abounded in invitations to use the

⁴ G20 agriculture ministers met on 22–23 June 2011 in Paris to discuss the volatility of agricultural commodity prices.

⁵ Particularly in reference to SDG 6, which aims, inter alia, at substantially increasing water-use efficiency, ensuring sustainable withdrawals, improving water quality and implementing integrated water-resource management.

⁶ The Agricultural Market Information System (AMIS) was established in order to “encourage major players in the agri-food markets to share data, to enhance existing information systems, to promote a greater shared understanding of food price developments, and further policy dialogue and co-operation” [G20, 2011, p. 7]. AMIS was set as an early warning system which indicates potential food crises by monitoring prices, trade,

expertise of various working groups operating in agricultural, environmental or health domains, such as the Group on Earth Observations Global Agricultural Monitoring (GEOGLAM) initiative, which joined AMIS in June 2016.

Conclusions

The new global governance mechanism is based on a triple actor approach, where: (1) the G20 acts as a hub of multi-level cooperation and apex systemic risk manager; (2) IOs offer expertise on specific issue areas; (3) GOs, as sherpas, or ministers influence the iteration by which leaders at subsequent summits soften difficult issues. This new mechanistic and praxis-oriented system of global governance has been built to achieve such objectives as: (1) responding to crises and closing global governance gaps; (2) enhancing international cooperation; and (3) building capacity for international innovation. As for reaching the first objective, the G20, as helmsman, is accountable for preparing the mechanisms for responding to crises and closing global governance gaps. It partly explains why subsequent summits have embraced so many new issues. Suffice to say that, apart from the initial G20 summit, where the number of commitments did not exceed 100, at subsequent summits their number increased, averaging between 150 and 300. Despite the G20 focus being fixed on core issues, such as macroeconomic policy, financial regulation, trade and investment and reforming global financial institutions, it is gradually broadening its agenda, which is sometimes criticized for leading to a “Christmas Tree effect.” Indeed, the OECD report [2016] *Contributions to the G20* lists 16 issue areas which are debated at every summit and constantly appear in communiqués, declarations and action plans. They can be grouped into:

- global economic governance: (1) Framework for Strong, Sustainable and Balanced Growth; (2) SMEs and Corporate Governance; (3) Financial Education and Financial Consumer Protection, (4) Taxation; (5) International Financial Architecture & Long-term Investment; (6) Investment and Trade;
- global sustainable development governance: (7) Disaster Risk Management; (8) Energy Architecture, Energy Efficiency and Fossil Fuels; (9) Green Growth; (10) Green Finance; (11) Climate Finance; (12) Food Security and Agriculture, (13) Development; (14) Employment and Social Policies;
- global security governance: (15) Anti-corruption; (16) Co-operation among International Organizations

The list is still open, especially as attention at G20 summits is often hijacked by current political issues, such as Russian activity in Eastern Ukraine, international terrorism, Brexit or the migrant crisis in Europe, to name only a few. Responding to these crises, and closing global governance gaps, as the objective of the new Global Gover-

output and inventory of such basic commodities as wheat, rice, soya bean, and maize [AMIS, 2014]. It provides its participants (G20 members, Spain and seven major producing, consuming and exporting countries of commodities covered by AMIS – Egypt, Kazakhstan, Nigeria, the Philippines, Thailand, Ukraine, and Vietnam) with complementary analysis of selected agricultural products in areas of supply and demand, crops, international prices, policy developments and market access.

nance Mechanism, on the one hand spurs the creation of an anti-crisis, firewall facility, with more equal participation and the empowerment of non-western powers, but at the same time is hamstrung by political volatility and multisided influences. The examples of the reform of Bretton Woods institutions and introduction of a global financial transaction tax stand out. In the first case, despite the United States' fierce opposition, the reform, approved in December 2010 by the IMF board of governors, was revived in 2015 after the United States Congress allowed the reform package to take effect in January 2016. Also, on 1 October 2016 the renminbi was added to the IMF's basket of Special Drawing Rights (SDR). Therefore, the G20 took probably the last chance to successfully contribute to the development of international economic governance, and this is a positive example where the closing of governance gaps was in fact possible. In the second case, the idea of "civilizing" the global financial sector and shifting the burden of emergency bailouts away from taxpayers by introducing the Financial Transaction Tax, despite being put on the table by the G20 in 2008, proved to be almost unworkable. Again, the stumbling block was the wild opposition flowing from the United States, influenced by powerful lobbies of investors, bankers, hedge funds and CRIs. Despite the tax proposal failures at the G20, this is an idea which will probably be bouncing back, as shown by the example of German Finance Minister Wolfgang Schaeuble's proposal in mid-2016 to place a financial transactions tax (FTT) on the G20's agenda. Surely, the catalyst which prompted the G20 to revive the idea was European fears of Brexit (which is a political issue) combined with failed FTT Plans among all 28 European Union members.

The second and third objectives of the new global governance mechanism are enhancing international cooperation and building capacity for international innovation. In achieving its second objective, the G20 benefits from the support of IOs. In official documents endorsed at G20 leaders' summits, there are references to supporting the ongoing work; recommendations and initiatives on a given issue area led by an external organization. As shown by G20 communiqués and declarations, elite global governance institutions are deployed within a certain, replicating pattern. According to the G20 Research Group methodology, the referencing of IOs can be described as the "development of global governance." However, reaching this objective using the global governance mechanism has its weak spots. The OECD, as well as other global institutions such as the IEA or the IMF, is still perceived by China and other BRICS economies as a western bulwark not reflective of the current economic multipolarity. Given the narrow base of their membership, or relatively small voting power of their non-western members, the effectiveness of these prominent IOs is limited. Finally, the third objective of the New Global Governance Mechanism has been to build capacity for international innovation at various levels. A good example here may be the G20 Digital Economy Development and Cooperation Initiative, which was agreed upon during the Hangzhou summit. The goal here is to ensure that an additional 1.5 billion people are connected and have meaningful access to the internet by 2020 through expanded and affordable broadband access. This goal is in line with "Broadband Europe," a European Commission strategy adopted in September 2016 and focused on providing every

European with personal Internet access at speeds of up to 30 Mbps and half of households with a 100 Mbps connection by 2020. It is obvious that meeting this ambitious digital agenda will not be possible without the active involvement of GOs.

The above-mentioned aspects of the global governance mechanism are interconnected. The three-actor cooperation approach aims at building a mechanism which is centred on achieving three main objectives. The stability of the whole mechanism is, however, dependent on (1) openness to collectively solving problems; (2) improving the cooperation of the G20 with other PSIs (G7/8 and BRICS) and the UN as a political centre of global governance; (3) enhancing legitimacy and efficiency, through maximizing compliance with G20 commitments and closer cooperation with civil society organizations; and, finally, (4) the resilience of the G20 mechanism necessitates the further inclusion of China and other developing countries into global decision-making processes. The global governance mechanism outlined here is still in an early stage of its development.

Despite its value in understanding the effectiveness of the G20 as an apex forum of global governance, the triple actor approach has its limitations. It may be well used in researching the bonds between plurilateral summit institutions (G7, G20, BRICS) and international organizations with a transregional reach, which often serve as the PSI's technical assistance providers, and thus occupy a prominent position in their networks or galaxies. However, as a research tool, it seems to be too narrow to analyse the multi-dimensional relationships between the G20 and the UN, which are subject to fluctuation and turbulence. Today the debate in this domain is function of divergent "schools" which, despite making useful contributions, are more normative and prescriptive than they are analytical or empirical. This short review takes up the task of a comprehensive, contemporary and systematic study, ushering in a more analytical view on global governance and its architecture.

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«Группа двадцати» и развитие нового механизма глобального управления^{1, 2}

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Основная цель данной статьи — проанализировать новый механизм глобального управления, выработанный в рамках форума «Группы двадцати» девятнадцатью наиболее развитыми экономиками мира, а также ЕС в лице Европейской комиссии и Европейского совета при сотрудничестве с международными организациями (МО) и представителями органов власти.

Автор статьи отказывается от теории «созидательного разрушения» Шумпетера и полагает, что новый, ориентированный на практические результаты механизм глобального управления создается на основании соединения между (1) «Группой двадцати», действующей как центр многоуровневого сотрудничества и вершины управления системными рисками; (2) международными организациями, предлагающими свою экспертизу по конкретным тематическим сферам; и (3) представителями органов власти (шеры или министры, ответственные за конкретные вопросы, которые встречаются, чтобы обсудить подготовку и исполнение принятых обязательств, и обеспечивают выработку решений, одобряемых лидерами на саммитах для решения сложных вопросов.

В заключительной части статьи автор отмечает, что успешное распространение этого механизма позволило достичь амбициозных результатов, таких как (1) создание механизма смягчения последствий экономического кризиса и устранения лагун в системе глобального управления; (2) наращивание международного сотрудничества и (3) формирование потенциала для распространения инновационных подходов.

Ключевые слова: «Группа двадцати»; глобальное управление; международные организации; представители органов власти

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The Hangzhou Consensus: Legacy for China, G20 and the World¹

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Abstract

China took over the G20 2016 presidency from Turkey during a period of subdued economic activity and diminished global growth. Growth in China was expected to slow to 6.3% in 2016 and 6.0% in 2017, primarily reflecting weaker investment growth as the economy continued to rebalance. Acknowledging that lower growth rates have become the “new normal,” the Chinese leadership set the annual target growth rate for China at no less than 6.5% in its 13th Five-Year Plan (2016–2020). The Plan redefined China’s development paradigm, de-emphasizing speed in favour of quality based on innovation, coordination, green development, openness and sharing. This vision constituted the foundation of China’s concept and priorities for the G20 presidency. The article reviews the main outcomes of the Chinese G20 presidency, focusing on major results which reflect China’s priorities for domestic development and international cooperation. Using qualitative and quantitative analysis of the G20 2016 documents and the documents of international organizations, the author highlights the key decisions made at the Hangzhou summit and trends in G20 engagement with international institutions.

The findings indicate that the Chinese presidency’s priorities of development, innovation and trade received unprecedented attention, with development reaching an almost 43% share in the discourse (compared to the average of 15% for the eleven summits), innovation rising tenfold to about 7% (compared to 0.75% for the eleven summits) and trade peaking to 7.3% (compared to the average rate of 2.8%). At 2.2%, the share of the G20 discourse dedicated to the environment was higher than the overall average (1.42%) and higher than at any other summit except Cannes and Los Cabos. While energy issue-related discourse (about 4%) ranked lower than for Brisbane and Antalya, the metric was comparable to the average for the period (3.4%). Discussion dedicated to economic issues (25%) was close to the average for the period (27%). In line with the historical trend, the share of finance issues in the G20 discourse continued to decline, reflecting the G20’s role in the division of labour with regards to the regulation of financial markets.

The intensity of G20 engagement with international organizations was higher than the average since the Washington summit. The choice of organizations was defined by the presidency’s priorities and established trends. Given the UN’s role in setting Sustainable Development Goals, and China’s commitment to the UN as the central element of a fair and peaceful multilateral system, it came as no surprise that the intensity of references to the UN was twice as high as the average for G20 summits and significantly higher than in any other summit. A similar trend was observed with respect to the WTO and UNCTAD. The G20’s reliance on OECD expertise continued to rise. The intensity of G20 engagement with the IMF and the World Bank was slightly lower than during the previous presidencies. Last but not least, China consolidated the G20’s dialogue with engagement groups, most notably with B20 and L20.

¹ The editorial board received the article in January 2017.

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Drawing on the results of qualitative and quantitative analysis, the author concludes that China's G20 presidency contributed to the country's development priorities, reflected China's role in the evolving world order, and consolidated the G20's status as the premier forum for economic cooperation and making globalization work for everyone. The author asserts that China managed to ensure its imprint on future G20 cooperation. First, it did so by integrating innovation, the new industrial revolution and the digital economy into its core agenda, generating 137 commitments to innovative growth and setting up the relevant international mechanisms. Second, with respect to trade and investment, it facilitated development and the adoption of two documents defining guiding principles for global investment policymaking, and promoting inclusive trade and global value chains. Third, under China's stewardship, the G20 agreed to three action plans on energy cooperation, including Enhancing Energy Access in Asia and the Pacific: Key Challenges and G20 Voluntary Collaboration Action Plan, the G20 Voluntary Action Plan on Renewable Energy, and the G20 Energy Efficiency Leading Program (EELP), making further progress to address energy access, a cleaner energy future, energy efficiency, global energy architecture, energy security, as well as market transparency. Fourth, China advanced further G20 cooperation on development based on the Action Plan of the 2030 Agenda for Sustainable Development. Fifth, the presidency committed to establish three China-based G20 centres, thus creating opportunities to enhance its influence in the G20 process through an evidence base, research and the exchange of knowledge in key policy areas. China struck a good balance between continuity and innovation regarding the G20 agenda, contributed to its legitimacy and effectiveness through productive engagement with key international organizations and dialogues with the engagement groups, and consolidated the G20's capacity for direction setting, decision making and delivery.

Key words: Global governance, international organizations, informal summit institutions, efficiency, legitimacy, innovation, new industrial revolution, digital economy, G20, China

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Plans and Expectations

China took over the G20 2016 presidency from Turkey “at a critical moment for the world economy, global governance and the institution-building of the G20 itself” [Wang, 2016b]. The International Monetary Fund (IMF) registered subdued economic activity and diminished growth prospects [IMF, 2016, pp. 1–2] and forecast global growth to be gradual, with 3.4% in 2016 and 3.6% in 2017. Growth in China was “expected to slow to 6.3% in 2016 and 6.0% in 2017, primarily reflecting weaker investment growth as the economy continues to rebalance” [IMF, 2016, p. 3]. Though lower than the country's performance in the previous years, it remained significantly higher than the global average, and second only to its neighbor India, set to grow at 7.5 in both 2016 and 2017 [IMF, 2016, p. 6]. While acknowledging that lower growth rates had become the “new normal,” the Chinese leadership set the annual growth rate target for China to be no less than 6.5% in its 13th Five-Year Plan (2016–2020) adopted at the fifth plenary session of the Communist Party of China's 18th Central Committee.² The 6.5%

² “Five-Year Plan to Speed up ‘Hukou’ Reform.” Available at: http://english.cntv.cn/special/fifthplenum_18th_cpc/ (accessed 15.01.2017).

growth should allow China to realize its goal of becoming a moderately prosperous society in all respects [Xi, 2016] and avoid the middle income trap.³ The Plan redefined China's development paradigm from speed to quality and efficiency, based on innovation, coordination, green development, openness and sharing.

This vision and these aspirations constituted the foundation of China's concept and priorities for the G20 presidency, as outlined by President Xi Jinping at the Antalya (Turkey) summit in November 2015: "First, we need to transform growth patterns in innovative ways with particular focus on pursuing reform and innovation. We must create and seize new opportunities to raise the potential of global economic growth. Second, we need to improve global economic and financial governance, increase the representation and voice of emerging markets and developing countries, and enhance the capacity of the global economy to ward off risks. Third, we need to promote global trade and investment to generate growth and build an open world economy" [Xi, 2015a].

Like many of its predecessors in prior summits [Shelepov, 2013; Larionova et al., 2013; Larionova, 2011], China sought a balance between its national priorities and global governance challenges, as well as between continuity and innovation in setting the G20's agenda for 2016. The presidency's statement on the theme and key agenda items for the summit articulated China's commitment to spare no efforts to build an "innovative, invigorated, interconnected and inclusive world economy" [Chinese G20 Presidency, 2016]. To break a new path for growth, the presidency proposed the adoption of an innovation-driven development strategy, to deepen structural reforms and increase total-factor productivity, advance the emerging new industrial revolution and enhance exchanges and coordination in economic, innovation and entrepreneurship policies to reduce inconsistencies [Chinese G20 Presidency, 2016, pp. 3–5]. For the first time in G20 history, green finance was put on the G20 agenda. China expressed its commitment to work, in the spirit of partnership, to consolidate and strengthen the G20 core agenda of macroeconomic and fiscal policies coordination, structural reforms, international financial architecture and financial sector reforms, the promotion of trade growth and forging inclusive and integrated global value chains.

In explaining China's ten priorities for the 11th G20 summit, Chinese Foreign Minister Wang Yi emphasized that "the theme and topics proposed by China have received strong endorsement and support from other G20 members" [Wang, 2016a]. One hundred days into the presidency, the Minister spelt out the results China expected to achieve at the summit. First, China intended for a blueprint for innovation-driven growth to "lock on the fresh impetus to global growth but also lay out specific action plans through which to boost innovation, the new industrial revolution and the digital economy" [Wang, 2016a]. Second, an action plan for the implementation of the 2030 Agenda for Sustainable Development was proposed to put the development issue within a global macro-policy framework and give a strong impetus to the UN's sustainable development agenda. Third, China expected an indicator system for struc-

³ "Blueprint for the 13th Five-Year Plan for 2016–2020." Available at: <http://www.china-brain.com/Resources/Blueprint-for-the-13th-Five-Year-Plan-for-2016-2020-/195.html#WGOU4y2LT3g> (accessed 15.01. 2017).

tural reforms to reenergize G20 members' efforts to implement structural reforms in nine priority areas. Fourth, the global trade growth strategy was aimed at reversing the ebbing growth of global trade through the coordination of trade and investment policies. Fifth, the adoption of a set of guiding principles for global investment was planned to facilitate cross-border cooperation on investment. Sixth, China hoped to advance completion of the IMF 15th General Review of Quotas. Seventh, the launch of high-level principles on international fugitive repatriation and asset recovery, a research centre on anti-corruption cooperation and a two-year anti-corruption action plan (2017–2018) were planned, in order to put a squeeze on corruption in the G20 and beyond. Eighth, cooperation to support the industrialization of Africa and least developed countries (LDCs) was proposed to speed up industrialization and enhance their capacity for development. Ninth, a G20 entrepreneurship action plan was intended to provide a platform for the exchange of best practice and experience. Tenth, a push for early entry-into-force of the Paris Agreement on climate change was expected to contribute to international cooperation on climate change [Wang, 2016a].

To achieve the results the presidency had planned, the G20 and their partners worked on a very dense programme which included 23 ministerial-level meetings, including five Sherpa meetings, four finance ministers' and central bank governors' meetings, as well as four deputy finance minister and central bank deputies' meetings. The G20 ministers for agriculture held their fourth summit meeting, and the labour and employment ministers held their seventh meeting. Energy ministers held their second meeting, and trade ministers held their fourth. All in all, 26 documents were adopted, 12 of which were agreed upon by the leaders and 13 by the ministerial meetings. The international organizations contributed to the G20 decision-making, providing 40 reports, notes and discussion papers (nine were prepared by the IMF, while eight came from the Organisation for Economic Co-operation and Development (OECD), six were submitted by the Financial Stability Board (FSB), five by the World Trade Organization (WTO), three by the International Labour Organization (ILO), one by the World Bank (WB), and one by the United Nations Conference on Trade and Development (UNCTAD). The engagement partners came up with nine documents presenting proposals from Business20 and Labour20, Think20, Civil20, Youth20 and Women20. Most of the ministerial decisions and many proposals of the outreach groups found their way into the Leaders' communiqué, which featured 135 commitments in the key policy areas of G20 cooperation.

China's Mark on the G20 Process and a Milestone in its History [Wang, 2016b]

So what were the main outcomes of China's G20 presidency? It would take a book to compile a detailed analysis of all the deliverables from the Chinese G20 presidency. This paper focuses on several major results reflecting China's priorities for domestic development and international cooperation. The Hangzhou Consensus foundations of

innovative growth, a combination of economic growth with social development and environment protection, an open world economy and economic growth which benefits all countries and all people are very much aligned with China's 13th five-year plan and its vision of innovative, coordinated, green, open and shared development. For the first time in the history of G20 innovation, the industrial revolution and the digital economy were included in the G20's core agenda. The four documents devoted to these issues (the G20 Blueprint on Innovative Growth, the G20 2016 Innovation Action Plan, the G20 New Industrial Revolution Action Plan, and the G20 Digital Economy Development and Cooperation Initiative) spelled out 110 commitments.⁴ Together with the 27 commitments in the leaders' communiqué, they laid a solid foundation for the G20's future agenda on innovation. Cooperation on the new agenda was institutionalized by the establishment of a "G20 Task Force supported by the OECD and other relevant international organizations to take forward the G20 agenda on innovation, the new industrial revolution and the digital economy, subject to the priorities of the respective future G20 presidencies, ensuring continuity and consistency with the results so far, and promoting synergies with other G20 workstreams" [G20 Leaders, 2016, para. 11].

The G20 2016 Innovation Action Plan mandated that the OECD and the WB support the G20 members' exchange of best practices and policies through a new on-line G20 Community of Practice (within the existing Innovation Policy Platform) and release of the 2016 G20 Innovation Report, which includes all G20 members and covers the measurable indicators. The G20 New Industrial Revolution Action Plan put forward an itemized course of action which focused on research, SME empowerment, standards and infrastructure for the NIR, and the industrialization of developing countries. The leaders asked the OECD, UNCTAD and UNIDO to prepare a G20 NIR Report providing an overview of opportunities and challenges brought about by NIR. The G20 Digital Economy Development and Cooperation Initiative made provisions for collective action to promote digital development and address the digital divide. It recognized the key role of adequate and effective IPR protection and the enforcement of all documents prioritizing cooperation on IPR, and pledged to engage with relevant international organizations, including the World Intellectual Property Organization (WIPO). Thus, with a targeted Task Force, multiple mandates for international organizations, new mechanisms for sharing knowledge and research to be carried out by the next G20 summit, cooperation on innovation, the digital economy and NIR was set in motion. Germany taking over from China made opportunities and risks arising from digital innovations one of the presidency priorities for G20 in 2017. By mid-January 2017, the OECD submitted to the G20 its recommendations for digital transformation in the G20, spanning a range of issues from access to digital infrastructures to digital security and legal frameworks.⁵

⁴ G20 Blueprint on Innovative Growth – 23, G20 2016 Innovation Action Plan – 13, G20 New Industrial Revolution Action Plan – 27, G20 Digital Economy Development and Cooperation Initiative – 47 commitments.

⁵ OECD (2017). "Key Issues for Digital Transformation in the G20." Berlin, 12 January. Available at: <https://www.oecd.org/g20/key-issues-for-digital-transformation-in-the-g20.pdf> (accessed 15.01.2017).

True to the G20's economic and financial governance reform mission, the Hangzhou decisions aimed to promote efficient global economic and financial governance, asking the IMF to complete the 15th General Review of Quotas, including a new quota formula, by the 2017 Annual Meetings. encouraging the World Bank Group to implement its shareholding review according to the agreed-upon roadmap, timeframe and principles; and commending the ongoing examination of the broader use of the SDR, such as broader reporting in the SDR and the issuance of SDR-denominated bonds [G20 Leaders, 2016, para. 17], following successful issuance of SDR bonds by the World Bank in China's interbank market.

Commitments to finalize the remaining critical elements of the regulatory framework and the timely, full and consistent implementation of the agreed-upon financial sector reform agenda, including Basel III and the total-loss-absorbing-capacity (TLAC) standard as well as effective cross-border resolution regimes, contribute to China's efforts to make the RMB an international currency and further internationalize its financial sector.

International cooperation on taxation was taken further with the leaders' endorsement of several related OECD proposals. These pertained to objective criteria for identifying non-cooperating jurisdictions with respect to tax transparency, and tasking the OECD with preparing a list of those jurisdictions that have not yet sufficiently progressed toward a satisfactory level of implementation of the agreed-upon international standards on tax transparency by the July 2017 G20 Leaders' summit [G20 Leaders, 2016, para. 19]. Emphasizing the role effective tax policy plays in promoting innovation-driven and inclusive growth, China pledged to make its own contribution by establishing an international tax policy research centre for international tax policy design and research.

In line with China's priority to enhance international cooperation against corruption and the G20 Toronto pledge to lead by example in fighting corruption, the G20 leaders endorsed the 2017–2018 G20 Anti-Corruption Action Plan to improve public and private sector transparency and integrity and the G20 High Level Principles on Cooperation on Persons Sought for Corruption and Asset Recovery. The Anti-Corruption Working Group was asked to develop an implementation plan before the end of 2016. G20 welcomed Chinese initiative to establish a Research Centre on International Cooperation Regarding Persons Sought for Corruption and Asset Recovery in G20 Member States. The proposed Centre will be located in China and operate according to international norms [G20 Leaders, 2016, para. 22].

Energy cooperation received a new boost. The G20 adopted three new documents: the G20 Voluntary Collaboration Action Plan on Energy Access, the G20 Voluntary Action Plan on Renewable Energy and the G20 Energy Efficiency Leading Program. Additionally, the members reaffirmed their commitment to open, competitive, efficient, stable and transparent energy markets, stressed the importance of investment in energy projects for ensuring future energy security and preventing economically destabilizing price spikes, and promised to enhance collaboration on solutions that promote

natural gas extraction, transportation, and processing in a manner that minimizes environmental impacts, given that it is a less emission-intensive fossil fuel.

The G20 Energy Efficiency Leading Program expands the G20 Energy Efficiency Action Plan to include five new key areas of collaboration. These are the Super-efficient Equipment and Appliances Deployment initiative (SEAD), Best Available Technologies and Practices (TOP TENS), District Energy Systems (DES), the Energy Efficiency Knowledge Sharing Framework, and Energy End-Use-Data and Energy Efficiency Metrics. Through the G20 Voluntary Action Plan on Renewable Energy, the G20 aimed to scale-up investments in renewable energy technologies, products and services, within and beyond the G20 members. The Voluntary Action Plan for Enhancing Energy Access in Asia and the Pacific set a framework for closer international cooperation to promote innovative technological solutions, develop and scale up sustainable business models and increase financing and investment as a means to realize the goals set under the 2030 Agenda in Sustainable Development Goal 7 on energy. The G20 decisions on energy access and efficiency contribute to the global efforts to combat climate change, support China's intended nationally determined contribution under the Paris Agreement [China's National Focal Point for UNFCCC, 2015] and reinforce the country's domestic management agenda, as set up in the PRC Strategic Energy Action Plan (2014–2020) and national 13th Five-Year Plan.

China is heavily reliant on trade for its development, ranking first in the world in terms of exports and second in terms of imports.⁶ The People's Republic marked the 15th anniversary of its WTO membership in December 2016. A member of 14 regional trade agreements, China regards FTAs as a platform for opening up its economy to the outside and speeding up domestic reforms.⁷ It pursues the completion of the Regional Comprehensive Economic Partnership, remains committed to the eventual realization of the Free Trade Area of the Asia Pacific (FTAAP), initiated during China's 2014 APEC presidency, and actively deploys the WTO mechanisms.⁸ Thus China seeks to balance its support for the multilateral trading regime ("read" WTO) with its pursuit of FTAs and investment treaties as well as the development of "high standard pilot free trade zones in China" [Xi, 2016]. China also needs access to foreign investment which is smarter, greener and more productive [OECD, 2016]. Therefore, strengthening international trade and investment was the focus of China's G20 presidency. Although the final outcomes of the summit did not quite measure up to Beijing's expectations, they were a step forward in G20 cooperation. Institutionally the G20 established a Trade and Investment Working Group (TIWG) and adopted two documents. The G20 Strategy for Global Trade Growth aims to lower trade costs, harness trade and investment policy coherence, boost trade in services, enhance trade finance, promote the

⁶ WTO data for 2015. "China." Available at: http://stat.wto.org/CountryProfiles/CN_E.htm (accessed 15.01.2017).

⁷ China FTA Network. Available at: <http://fta.mofcom.gov.cn/english/> (accessed 15.01.2017).

⁸ China has acted/acts as compliant in 15 cases of the dispute cases and as respondent in 38 cases. WTO. "China and the WTO." Available at: https://www.wto.org/english/thewto_e/countries_e/china_e.htm (accessed 15.01.2017).

development of e-commerce, and address trade and development [G20 Trade Ministers, 2016b]. The G20 Guiding Principles for Global Investment Policymaking were proposed to provide general guidance for investment policymaking with the objective of (i) fostering an open, transparent and investment-conducive global policy environment, (ii) promoting coherence in national and international investment policymaking, and (iii) promoting inclusive economic growth and sustainable development [G20 Trade Ministers, 2016c]. However, their statement on regional trade arrangements' coherence with the WTO, "We commit to working to ensure our bilateral and regional trade agreements complement the multilateral trading system, and are open, transparent, inclusive and WTO-consistent" [G20 Leaders, 2016, para. 27], was weaker than that of their trade ministers, who also promised to "work with other WTO members towards the transformation of the provisional Transparency Mechanism on RTAs into a permanent one and commit to lead by example in fully fulfilling related notification obligations" [G20 Trade Ministers, 2016a, para. 13].

The G20 Action Plan on the 2030 Agenda for Sustainable Development aligned G20 development cooperation with the 2030 Agenda for Sustainable Development. It defined the principles and priority issues,⁹ as well G20 members' national actions. Importantly, it upgraded the DWG's status, which was mandated to act as a coordinating body and policy resource for sustainable development across the G20. It was tasked to assist "in the delivery of 2030 Agenda-related activities, working closely with other G20 work streams in the Sherpa and Finance tracks, by facilitating two-way exchanges of information, providing advice to other work streams on development-related issues and 2030 Agenda priorities, and helping to identify in each presidency the division of labour between the DWG and other work streams with an aim to strengthen the integration of the 2030 Agenda in G20 work programs and ensure that responsibility for the implementation and tracking progress of specific issues is clear" [G20, 2016, p. 17].

The presidency saw two new initiatives in infrastructure as one of the key areas in the G20's development cooperation agenda. Eleven major multilateral development banks (MDBs), including the recently-established Asian Infrastructure Investment Bank (AIIB) and New Development Bank (NDB), issued a "Joint Declaration of Aspirations on Actions to Support Infrastructure Investment" with announcements of quantitative ambitions for high-quality infrastructure projects. This was an important result, culminating from the initiative on financing for long-term investment launched by the Russian G20 2013 Presidency [G20 Study Group on Financing for Investment, 2013]. Another initiative, the Global Infrastructure Connectivity Alliance, aimed to enhance the synergy and cooperation among various infrastructure connectivity programs. The membership of the Alliance is open to both G20 and non-G20 governments, the Global Infrastructure Hub (GIH), OECD, MDBs, global and regional in-

⁹ Infrastructure, Agriculture, Food Security and Nutrition, Human Resource Development and Employment, Financial Inclusion and Remittances, Domestic Resource Mobilization, Industrialization, Inclusive Business, Energy, Trade and Investment, Anti-Corruption, International Financial Architecture, Growth Strategies, Climate Finance and Green Finance, Innovation, and Global Health [G20, 2016].

frastructure programs, and other international organizations. The Leaders asked the WBG to serve as the Secretariat of the Alliance, working closely with all its members.

The G20 Initiative on Supporting Industrialization in Africa and LDCs launched at Hangzhou was taken up by the German G20 presidency, seeking to reduce risks of climate change, contribute to more efficient health systems and strengthen the role of women [German G20 Presidency, 2017].

Employment issues were dealt with in the framework of inclusive development. The leaders emphasized that the benefits from globalization and innovations should be widely shared, creating more and better jobs, reducing inequalities and promoting inclusive labour force participation. They endorsed action plans developed by G20 labour and employment ministers, approved Sustainable Wage Policy Principles, and reiterated commitments to the G20 Entrepreneurship Action Plan. China pledged to contribute to entrepreneurship development by establishing an Entrepreneurship Research Centre on G20 Economies.

On climate change, the G20 members committed to complete domestic procedures in order to join the Paris Agreement as soon as the members' national procedures allowed, affirming the importance of fulfilling the developed countries' UNFCCC commitment to provide financial resources to assist developing countries with respect to both mitigation and adaptation actions.

Looking into the G20's future agenda, the leaders promised to continue to address forced displacement in 2017 with a view to developing concrete actions. Taking over from China, Germany put forward its aim to elaborate solutions to strengthen international institutions and structures, in order to better address displacement and illegal migration. On fighting antimicrobial resistance, the G20 called on the World Health Organization (WHO), the Food and Agriculture Organization of the United Nations (FAO), the World Organisation for Animal Health (OIE) and OECD to collectively report back in 2017 on options to address the problem, including the economic aspects.

What do the Numbers Tell us about China's G20 Presidency?

Prioritization of the G20 agenda items under the Chinese Presidency is confirmed by data from the quantitative analysis of the G20 2016 documents.

Methodology

The quantitative analysis is carried out within a functional paradigm. This approach allows a comparison between summit institutions (the G7/8, G20 and BRICS) and within one institution across different presidencies according to three groups of indicators: contribution to the global governance agenda, contribution to multilateralism through engagement with other international institutions, and the performance of global governance functions. It thus contributes to a generation of quantifiable evidence base for assessing the effectiveness of these institutions and informing the re-

search and forecast of their roles in the system of global governance. Contribution to the global governance agenda is assessed by examining the comparative weights of the key policy priorities in G20 documents, their dynamics in the agenda, and responsiveness to new challenges. The contribution to multilateralism is assessed on the basis of the intensity and modes of engagement with other multilateral institutions. Within the third group of indicators, the focus is on the balance and dynamics of the main global governance functions of deliberation, direction setting, decision making, delivery, and the development of global governance¹⁰ as expressed in the G20 documents, including summit declarations, ministerial statements, progress reports, and material issued by officials and working groups.

To enable quantitative analysis, all documents are uploaded into a special database, structured by summits and presidencies, with earmarks of references to international organizations. The data base currently includes 240 documents adopted by the G20 and BRICS, with 165 G20 documents adopted since 2008 and 75 BRICS documents adopted since 2009. The database is updated to integrate new documents once they are agreed upon and published. The special program allows content analysis to be carried out according to the type of documents, functions, policy areas and issues, as well as references and modes of engagement with international organizations. This is done through a search of requested text units, the generation of special samples, and the identification of relevant correlations and statistical data processing. A text unit in the content analysis is earmarked as implementing only one priority.

The quantitative analysis of the priorities in the G20 discourse is carried out on 11 broad issue areas present on the institution's agenda. The comparison is made using absolute and relative data on the number of symbols denoting a priority in the G20 documents for a certain period (a summit, a presidency, or a cycle). Relative parameters are defined as the share of each priority in the total number of symbols and expressed in percentages.

For the assessment of the G20 engagement with other international institutions, references to international organizations are identified in all the documents in the data base. Assessment is based on three parameters: the number of references to a particular organization made over the period, its share in the total number of references, and the intensity. The intensity is expressed as a ratio of the number of references to the institution to the number of characters (including spaces and punctuation) in the documents as follows: $D_i = M_i/S_i$, where D_i is the intensity of references to a particular international institution for a given year (period), M_i is the number of references made to this institution during this year (period), and S_i is the total number of characters in the

¹⁰ Deliberation is understood as face-to-face discussions of the members encoded in the collective communiqués. Direction-setting is defined as the collective affirmation of shared principles, norms and prescriptions. Decision-making is regarded as credible, clear, collective commitments with sufficient precision, obligation and delegation. Delivery is understood as stated compliance with collective decisions. Global governance development is perceived as G20 capability to use other international institutions and create its own institutions as global governance mechanisms [Kirtan, 2013, p. 37–39].

documents for this year (period). To make the findings more easily understood, D_1 is multiplied by 10,000.

The analysis of the performance of global governance functions is conducted using absolute and relative data on the number of symbols (including spaces and punctuation marks) relating to a certain function in the text. Relative parameters are defined as the share of the function in the total of all functions and expressed in percentages.

The methodology was first tested to assess G7/8 and G20 Effectiveness in Global Governance. For a full description of the methodology, see “The G8–G20 Relationship in Global Governance,” edited by Marina V. Larionova and John J. Kirton. Chapter 6 “Assessing G7/8 and G20 Effectiveness in Global Governance” Marina V. Larionova, Mark Rakhmangulov, and Andrey Shelepov.

Key Findings

Development, innovation and trade warranted unprecedented attention, with development reaching a share of almost 43% in the discourse (compared to the average of 15% for the eleven summits), innovation rising tenfold to about 7% (compared to 0.75% for the eleven summits) and trade peaking to 7.3 (compared to 2.8 average) (Fig. 1).

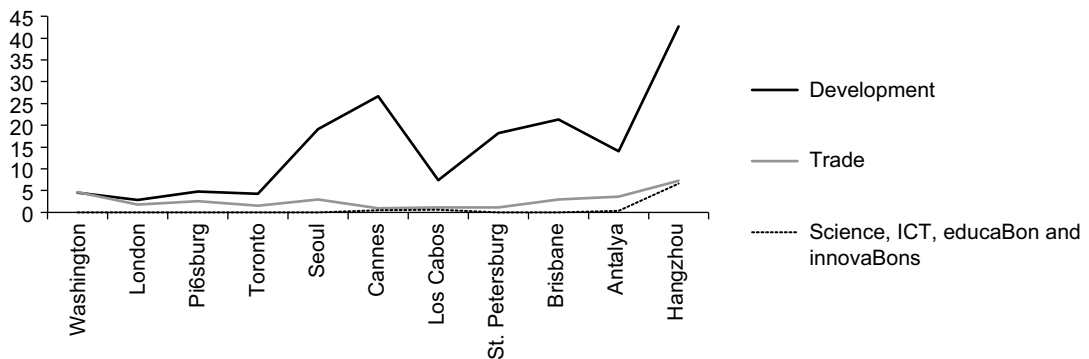


Fig. 1. Share of Development, Trade and Innovation in the G20 Discourse

Source: Author's calculations.

At 2.2%, the share of G20 discourse dedicated to the environment was higher than the overall average (1.42%) and higher than at any other summit except Cannes and Los Cabos. While lower than for Brisbane and Antalya, energy issues (about 4%) are comparable to the average for the period (3.4%) (Fig. 2).

Discussion dedicated to economic issues (at 25%) was close to the average for the period (27%). In line with the historical trend, the share of finance issues in the G20's discourse continued to decline, reflecting the G20's role in the division of labour with regard to the regulation of financial markets. The G20 defined the direction for coordinated actions, mandating the FSB, Basel Committee on Banking Supervision

(BCBS), IMF and other international standards setters, endorsing recommendations, standards, guidelines and procedures developed by the regulators. The G20 remained committed to the implementation of new regulatory measures and pledged its accountability; with the respective international institutions taking responsibility for the development of recommendations and oversight (Fig. 3).

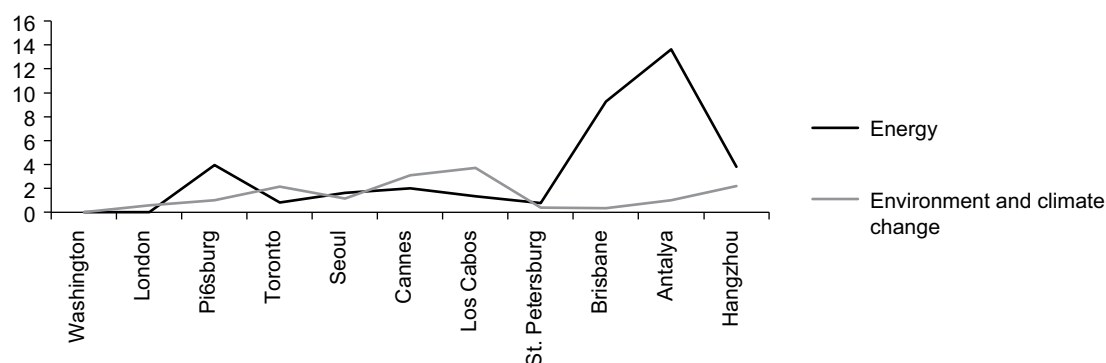


Fig. 2. Share of Energy and the Environment in the G20 Discourse

Source: Author's calculations

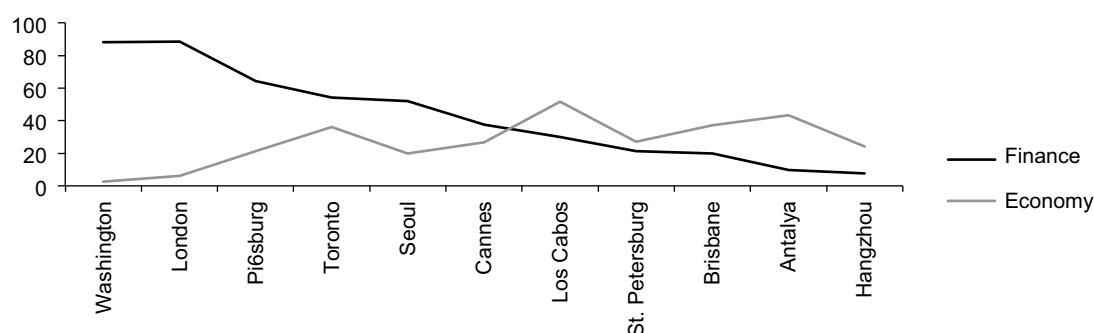


Fig. 3. Share of Finance and Economy in the G20 Discourse

Source: Author's calculations

To ensure continuity, legitimacy and efficiency, the G20 members continued to engage with other international organizations in fulfilling their global governance functions. The intensity of G20 engagement with international organizations, at a level of about 14, was a bit higher than the average since the Washington summit (13.30) (Fig. 4).

The choice of organizations was defined by the presidency's priorities and established trends. Given the UN's role in the Sustainable Development Goals (SDGs), and China's commitment to the UN as the central element of a fair and peaceful multilateral system (Xi, 2015b), it came as no surprise that the intensity of references to the UN was twice as high as the average for the G20 and significantly higher than in any other summit. A similar trend is observed for the WTO and UNCTAD – pillars of the multilateral trade system. The G20's reliance on OECD expertise continued to

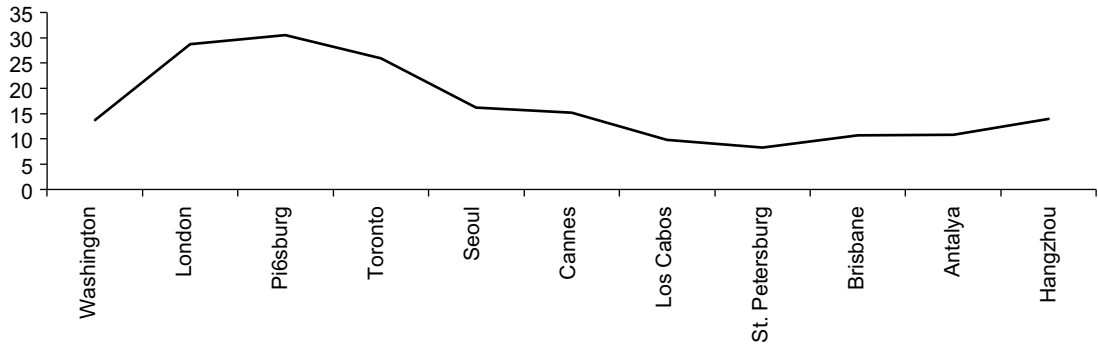


Fig. 4. Intensity of G20 Engagement with International Organizations

Source: Author's calculations.

rise and will obviously increase further. At the request of the G20 leaders, the OECD will support the G20 Task Force, set up at the summit, to promote the G20 agenda on innovation, the new industrial revolution and the digital economy and will be able to influence the G20's future agenda, as well as the G20 members' national policies across the three areas [Larionova, 2017]. The intensity of G20 engagement with the IMF (at 1.75) and the WB was slightly lower than in the previous summits. Intensity of G20 engagement with the IMF fluctuated at about the same level since Seoul and for the WB (at 0.87), slowly ebbing from summit to summit since its peak in Toronto. Last but not least, China consolidated G20 dialogue with engagement groups (Fig. 5), most notably with B20 and L20. It referred to both in relation to the implementation of the G20 Initiative to Promote Quality Apprenticeship, but also in the context of joint efforts to ensure that "trade, investment and other public policies, at both national and global levels, remain coherent, complementary and mutually reinforcing" [G20 Trade Ministers, 2016a, para. 20].

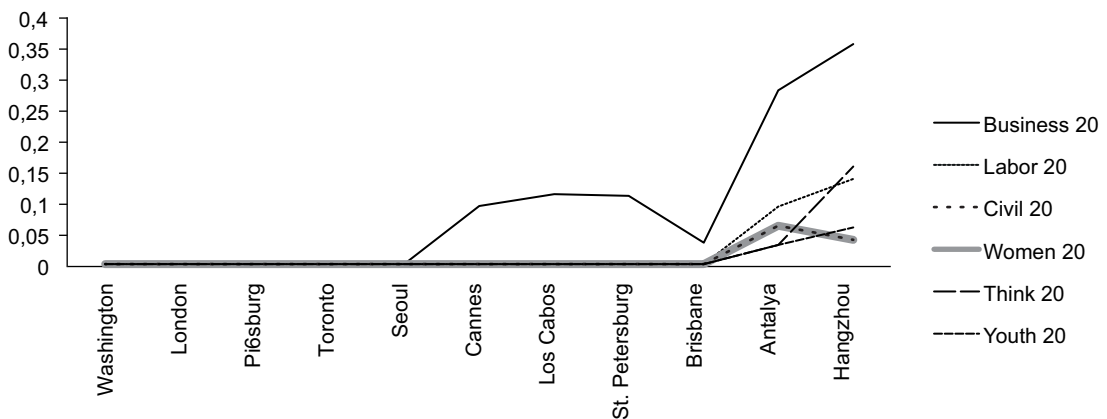


Fig. 5. G20 Engagement with the Outreach Formats

Source: Author's calculations.

The balance of global governance functions in Hangzhou was tilted toward direction setting, its share amounting to almost 36%, which is significantly higher than the average of 25% and equals the direction setting share in the leaders' discourse in Washington. This unprecedented hike in direction-setting is clearly connected with the introduction of new policy areas. Apart from the triad of innovation, digitalization and the new industrial revolution, the G20 discussed green finance, excess capacity in steelmaking and other industries, launched the G20 debate on responses to the ongoing refugee crisis and on the prevention and mitigation of antimicrobial resistance. In absence of shock-activated emergency awareness, the G20 members took time to deliberate on these challenges and define a direction for collective action. Though the share of decision-making is lower than in the three previous summits, it constitutes a robust quarter of the discourse, close to the average of 25.46%.

Three documents are focused on the G20 members' delivery on the previous commitments. The 2016 Accountability Assessment Report, prepared with IMF and OECD support, and the Hangzhou Action Plan explored the members' progress towards lifting the aggregate G20 GDP by an additional 2% by 2018 through the implementation of national growth strategies put forward at the Brisbane and Antalya summits. It highlighted the countries' successes in meeting these goals, but also urged the G20 to accelerate the implementation of the pledges, as only 55 Brisbane and 45 Antalya commitments were fully implemented [G20 Framework Working Group, 2016, p. 1]. The Hangzhou Comprehensive Accountability Report on G20 Development Commitments, the second three years' comprehensive review, tracked progress on 68 G20 DWG commitments agreed upon in the St. Petersburg Development Outlook, noting the completion of 39 commitments, advancement on 24, mixed performance on 3 and the redirection on two of the 2014–2016 pledges.

Though the share of global governance development in the G20 2016 discourse amounted to only 0.5%, decisions provided for the establishment of a G20 Task Force on innovation, the new industrial revolution and the digital economy; the formation of a Global Forum on excess steel capacity; the launch of the Global Infrastructure Connectivity Alliance Initiative; enhancing the status of the G20 DWG; the adoption of G20 Guiding Principles for Global Investment Policymaking and the G20 Strategy for Global Trade Growth; as well as setting up of several research centres. These included the Centre for International Tax Policy Design and Research, the Research Centre on International Cooperation Regarding Persons Sought for Corruption and Asset Recovery in G20 Member States, and an Entrepreneurship Research Centre on G20 Economies. All in all, the breakdown of the global governance functions in the G20 discourse is balanced, with the share of direction setting and decision-making put together amounting to more than 60% of the discourse, demonstrating the G20's capacity for forging decisions and defining the direction of collective efforts.

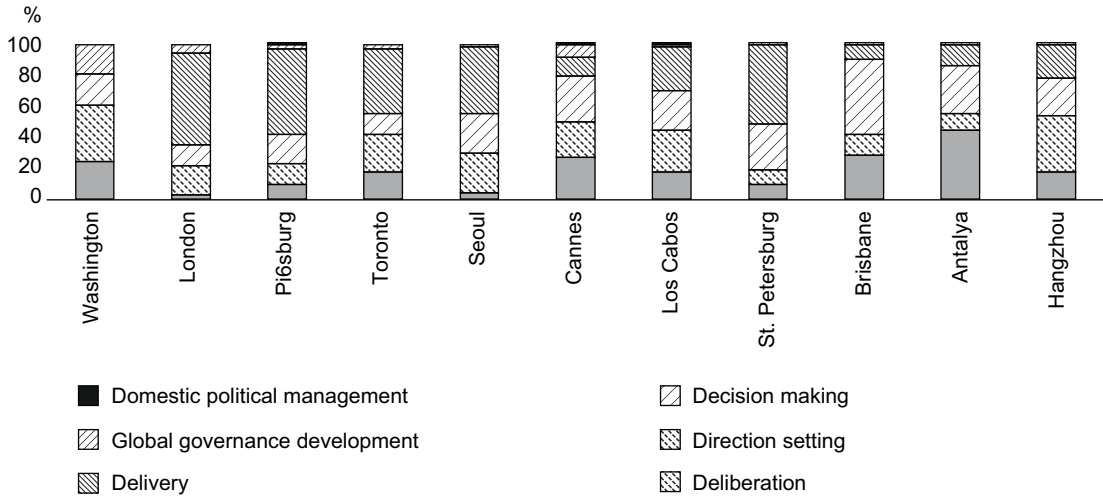


Fig. 6. Dynamics of global governance functions in the G20 discourse

Conclusion

China ensured its imprint on future G20 cooperation. First, it did so by integrating innovation, the new industrial revolution and the digital economy into its core agenda, generating 137 commitments on innovative growth and setting up the relevant international mechanisms. Second, regarding trade and investment, it facilitated the development and adoption of two documents defining guiding principles for global investment policymaking, and promoting inclusive trade and global value chains. Third, under China's stewardship, the G20 agreed upon three action plans, including Enhancing Energy Access in Asia and the Pacific: Key Challenges, a G20 Voluntary Collaboration Action Plan, the G20 Voluntary Action Plan on Renewable Energy, and the G20 Energy Efficiency Leading Program (EELP), making further progress to address energy access, a cleaner energy future, energy efficiency, the global energy architecture, energy security, as well as market transparency. Fourth, China advanced further G20 cooperation on development through the Action Plan on the 2030 Agenda for Sustainable Development. Fifth, the presidency committed to establish three China-based G20 centres, thus creating opportunities to enhance its influence on the G20 process through evidence base, research and knowledge exchange on key policy areas. China struck a good balance between continuity and innovation in the G20 agenda, contributed to its legitimacy and effectiveness through productive engagement with key international organizations and dialogue with the engagement groups, and consolidated the G20's capacity for direction setting, decision making and delivery. Thus, China's G20 presidency contributed to its development priorities, reflected China's role in the evolving world order, and reaffirmed the status of the G20 as the premier forum for economic cooperation and capability to make globalization work for all.

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Ханчжоуский консенсус: наследие для Китая, «Группы двадцати» и мира^{1, 2}

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Председательство в «Группе двадцати» перешло от Китая к Турции в конце 2016 г. в период слабой экономической активности и снижения темпов глобального роста. Ожидается, что экономический рост Китая замедлится до 6,3% в 2016 г. и 6,0% в 2017 г., что в первую очередь вызвано более слабым ростом инвестиций на фоне продолжения поиска экономики нового баланса. Признавая, что более низкие темпы роста стали «новой нормалью», руководство Китая в 13-м Пятилетнем плане (на 2016–2020 гг.) установило ежегодный целевой темп роста экономики Китая на уровне не менее 6,5%. План изменил акцент парадигмы развития Китая со скорости на качество на основе инноваций, координации, «зеленого» развития, открытости и разделения выгод. Это видение стало основой концепции и приоритетов китайского председательства в «Группе двадцати». В статье рассматриваются основные итоги председательства Китая в «Группе двадцати» с упором на ключевые результаты, отражающие приоритеты страны в области внутреннего развития и международного сотрудничества. Используя качественный и количественный анализ документов «двадцатки» 2016 г. и документов международных организаций, авторы выделяют ключевые решения, принятые на саммите в Ханчжоу, а также тенденции сотрудничества «Группы двадцати» с международными институтами.

Полученные результаты свидетельствуют о том, что приоритеты Китая в области развития, инноваций и торговли были отмечены беспрецедентным вниманием. Доля приоритета содействия развитию в дискурсе достигла почти 43% (по сравнению со средним показателем в 15% для всех одиннадцати саммитов), доля инноваций увеличилась в 10 раз и составила около 7% (по сравнению с показателем 0,75% для одиннадцати саммитов), а доля торговли достигла максимального в истории значения в 7,3% (по сравнению со средним показателем 2,8%). Доля вопросов окружающей среды в дискурсе составила 2,2%, что выше среднего уровня (1,42%) и показателей всех предыдущих саммитов, за исключением встреч в Каннах и Лос-Кабосе. Хотя доля дискурса по вопросам энергетики оказалась ниже, чем в Брисбене и Анталии, уровень около 4% сопоставим со средними показателями за всю историю «двадцатки» (3,4%). Доля экономических проблем (25%) была близка к средней за весь период (27%). В соответствии с исторической тенденцией доля финансовых вопросов в дискурсе «Группы двадцати» продолжала снижаться, что отражает роль института в разделении труда в отношении регулирования финансовых рынков.

Интенсивность взаимодействия «двадцатки» с международными организациями была выше, чем в среднем за период с саммита в Вашингтоне. Выбор организаций определялся приоритетами председательства и сложившимися тенденциями. Учитывая роль ООН в достижении целей устойчивого развития и приверженность Китая этой организации как центральному элементу справедливой и способствующей поддержанию мира многосторонней системы, неудивительно, что интенсивность упоминаний ООН была в два раза выше, чем в среднем за весь период существования «двадцатки», и значительно выше, чем в рамках любого другого саммита. Аналогичная тенденция наблюдается в отношении ВТО и ЮНКТАД. «Группа двадцати» продолжала полагаться на экспертный потенциал ОЭСР. Интенсивность взаимодействия «двадцатки» с МВФ и Всемирным банком была несколько ниже, чем в рамках предыдущих председательств. Также немаловажно, что Китай укрепил диалог «двадцатки» с аутрич-группами, прежде всего «деловой двадцаткой» и «профсоюзной двадцаткой».

¹ Исследование выполнено в рамках научно-исследовательской работы государственного задания РАНХиГС «Оценка эффективности «Группы двадцати» и БРИКС на основе результатов мониторинга исполнения решений» (2017 г.).

² Статья поступила в редакцию в январе 2017 г. Перевод выполнен Н.А. Спорышевой.

Основываясь на результатах качественного и количественного анализа, авторы приходят к выводу, что председательство Китая в «Группе двадцати» способствовало реализации приоритетов развития страны и отражало роль Китая в изменяющемся мировом порядке, помогая укрепить статус «двадцатки» в качестве основного форума экономического сотрудничества и наращивая ее возможности по распределению выгод глобализации между всеми гражданами. Авторы утверждают, что Китай сумел обеспечить вклад в будущее сотрудничество в рамках «двадцатки», во-первых, за счет включения инноваций, новой индустриальной революции и цифровой экономики в ее основную повестку дня, отразившегося в принятии 137 обязательств по инновационному росту и созданию соответствующих международных механизмов. Во-вторых, в области торговли и инвестиций китайское председательство способствовало разработке и принятию двух документов, один из которых определяет руководящие принципы для разработки глобальной инвестиционной политики, а другой направлен на стимулирование развития инклюзивной торговли и глобальных цепочек создания стоимости. В-третьих, в рамках председательства Китая «двадцатка» согласовала три плана действий по энергетическому сотрудничеству, включая «Расширение доступа к энергоресурсам в Азиатско-Тихоокеанском регионе: ключевые вызовы и План добровольного сотрудничества «Группы двадцати», «Добровольный план действий “Группы двадцати” по возобновляемым источникам энергии» и «Руководящую программу “Группы двадцати” по энергоэффективности» (EELP), обеспечивших дальнейший прогресс в решении вопросов доступа к энергии, экологически чистой энергетике, энергоэффективности, глобальной энергетической архитектуры, энергетической безопасности, а также прозрачности рынка. В-четвертых, Китай стимулировал сотрудничество в рамках «двадцатки» по содействию развитию, основанное на Плана действий по осуществлению Повестки дня в области устойчивого развития до 2030 г. В-пятых, председательство взяло на себя обязательство по созданию трех исследовательских центров «Группы двадцати» в Китае, обеспечив тем самым возможности для усиления своего влияния на процесс работы «двадцатки» на основе использования базы фактических данных, исследований и обмена знаниями в ключевых областях политики. Китай добился хорошего баланса преемственности и новаторства в повестке дня «двадцатки», способствовал повышению ее легитимности и эффективности благодаря продуктивному взаимодействию с ключевыми международными организациями и диалогу с аутрич-партнерами, а также укрепил потенциал «Группы двадцати» по реализации функций определения направлений действий, принятия решений и их исполнения.

Ключевые слова: глобальное управление; международные организации; неформальные институты высшего уровня; эффективность; легитимность; инновации; новая индустриальная революция; цифровая экономика; «Группа двадцати»; Китай

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Can the BRICS Cooperate in International Security?¹

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Abstract

The BRICS have made considerable strides in economic and development cooperation, yet the coalition has not been as successful in formulating and implementing an agenda of its own to address international security despite clear signs that the coalition wishes to promote cooperation in this area. Why, then, have the BRICS been slower to cooperate on security issues and what are the prospects for intensifying cooperation in this area? This article analyses BRICS cooperation agenda-setting in international security against the backdrop of the coalition's efforts to institutionalize itself as a flexible yet coherent entity and an influential collective actor in international affairs. Drawing on key BRICS documents and reports related to security meetings, I examine three types of security-related efforts that have been made since the first summit, in 2009.

These include attempts to coordinate positions on specific security issues, namely armed conflicts and related normative stances; efforts to coordinate policies; and institution-building initiatives. I find that the bulk of BRICS security discussions have focused on the first category, with some effort to coordinate policy and minimal progress in institution-building in the security arena. This finding shows that international security has not, thus far, been among the “paths of least resistance” that the grouping's diverse members have found in their efforts to deepen intra-group collaboration — a fact that can be explained by citing internal differences as well as contextual factors. However, the hurdles to a more cohesive BRICS security agenda are not insurmountable, although they may restrict the gamut of topics addressed by the coalition's cooperation efforts. In particular, there is an unexplored area in which the five states could enhance their security cooperation while drawing on their development and peace-building experiences and preferences: that of conflict prevention.

Key words: BRICS; international security; agenda-setting; global governance

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Introduction

The BRICS (Brazil, Russia, India, China and South Africa) coalition has made considerable strides in economic and development cooperation, yet has not been as successful in formulating and implementing an agenda of its own to address international security, despite clear signs that the coalition wishes to promote cooperation in this

¹ The editorial board received the article in January 2017.

area. Security topics have begun to appear more frequently in key BRICS documents. For instance, in the declaration issued at the end of the Goa summit, held in 2016, the number of references to “security” (32) and to “terrorism/terrorist” (36) was comparable to the number of references to “economic” (36).² In addition, the national security advisors of the coalition’s member states have held a number of security meetings. Yet, whereas in development cooperation the BRICS group has made a splash by launching the New Development Bank (NDB), in security there has been no equivalent landmark in the coalition’s institutionalization. Why, then, have the BRICS countries been slower to cooperate on international security issues and what are the prospects for intensifying cooperation in this area?

Despite the slow pace and fragmented character of this cooperation, any BRICS action in international security – even when confined to vague statements and informal policy coordination – has tended to ring alarm bells among some circles, especially when the coalition draws heavily on the discourse of national sovereignty. For instance, in 2015, the Netherlands-based think tank Clingendael Institute released a report titled “BRICS as a security challenge in multilateral forums,” which refers to the coalition members as self-serving “sovereignty hawks” whose “strategic egotism” represents a menace to EU interests in its strategic neighbourhood.”³ There is also a common perception among some western leaders that intensifying BRICS cooperation, even outside the realm of security, represents a menace to the U.S.-led liberal order. U.S. Secretary of Defense Leon Panetta referred to the BRICS countries as a threat to national and international security, urging the U.S. government to ensure that “they don’t undermine the stability of the world” [Tyler and Thomas, 2014, p. 254].

This article analyses BRICS cooperation agenda-setting in international security against the backdrop of the coalition’s efforts to institutionalize itself as a flexible yet coherent entity. Drawing on key BRICS documents and reports related to security meetings, I examine three types of security-related efforts since the first summit, in 2009. These include: attempts to coordinate positions on specific security issues, namely armed conflicts and related normative stances; efforts to coordinate policies; and institution-building initiatives. I find that the bulk of BRICS security discussions have focused on the first category, with some effort in policy coordination and minimal progress in institution-building in the security arena. This finding shows that international security has not, thus far, been among the “paths of least resistance” that the grouping’s diverse members have found in their efforts to deepen intra-group collaboration – a fact that internal differences and contextual factors help explain. However, the hurdles to a more cohesive BRICS security agenda are not insurmountable, although they may restrict the gamut of topics addressed by the coalition’s cooperation

² Ministry of External Affairs, Government of India (2016) “Goa Declaration at 8th BRICS Summit.” Goa, 16 October. Available at: <https://www.mea.gov.in/bilateral-documents.htm?dtl/27491/Goa+Declaration+at+8th+BRICS+Summit> (accessed 05.01.2017).

³ Clingendael Institute (2015) “The BRICS as a Security Challenge in Multilateral Forums.” September. Available at: https://www.clingendael.nl/pub/2015/the_brics_as_an_eu_security_challenge/1_the_brics_as_a_security_challenge_in_multilateral_forums/ (accessed 05.01.2017).

efforts. In particular, there is an unexplored area in which the five states could enhance their security cooperation while drawing on their development and peace-building experiences and preferences: that of conflict prevention.

The article is structured in the following manner. The first part links the concept of agenda-setting to the recent literature on rising power coalitions in the post-Cold War era, including the institutionalization of the BRICS. The second part of the article analyses documents relevant to the BRICS security cooperation agenda, as well as reports related to the meetings of BRICS national security advisors. The third and final part analyses BRICS agenda-building efforts in security in light of internal as well as external constraints. The conclusion relates the findings to the concept of agenda-setting in informal coalitions and it proposes that the BRICS concentrate their security cooperation efforts on the prevention of armed conflicts.

Agenda-Setting and Loose State Coalitions

A growing body of scholarship on international organizations has sought to shed light on how certain themes acquire or lose prominence among the wide gamut of ideas and proposals generated by international organizations and other stakeholders. In other words, which topics come to the fore, how those ideas are proposed and why they gain or fail to gain salience relative to others. The concept of *agenda-setting* has been more specifically associated with the influence of media on the salience of certain themes, and/or on the impact that the resulting agenda has on the behaviour of “agenda adopters” (consumers). In international relations, a strictly state-centric approach to agenda-setting is inadequate because pressure concerning certain topics often comes from civil society and the process is heavily shaped by those entities’ and networks’ interaction with multilateral organizations, as Carpenter [2007] has shown in the case of transnational activists shaping issues and Joachim [2007] has demonstrated in analysing the expansion of women’s rights within the United Nations (UN) agenda.

The interaction between “external actors” and multilateral organizations is far from homogenous, however. Assayag [2016] has studied, for instance, the different forms of strategies adopted by issue entrepreneurs and agenda gatekeepers. Likewise, the epistemic communities framework, originally developed to address international decision-making in technically complex issues amid high levels of uncertainty, has also noted the influence of experts in agenda-setting [Dunlop, 2016]. More broadly, these different approaches resonate with the constructivist approach to international relations and, more specifically, its focus on the influence of social relations and cognition on the framing of international norms and set-ups [see, for instance, Keck and Sikkink, 1998].

Most of this scholarship has focused on either civil society entities or activist networks as issues entrepreneurs, or on their interaction with established multilateral organizations like UN divisions or the Bretton Woods institutions. However, in the post-Cold War era, as part of a broader process, the multipolarization of the international

order, there has been a proliferation of looser coalitions of states. Rather than full-fledged organizations, these coalitions are relatively distant from the ideal Weberian type of bureaucracy, in that they lack a headquarters, organizational leadership, visual identity, dedicated career professionals and other structural characteristics associated with rational bureaucratic organizations. Instead, these multi-state coalitions obey a more flexible logic, both spatially and in terms of identity, both of which provide certain advantages insofar as they allow member states to explore cooperation opportunities without being encumbered by the bureaucratic hurdles and loss of momentum that an established organization can experience. As Cooper and Farooq [2013] have put it, these “club dynamics” connote a certain “privileging of informality in global governance.”

These coalitions vary in size and composition. The G-20, for instance, brings together both global and rising powers in a sort of “hub governance.” Its agenda adapts constantly to a highly dynamic international arena [Kirton, 2016]. Other coalitions are composed of states that either have adopted the identity of a rising power or are (often) cast into this category by international relations analysts, although not without dispute. Russia, for instance, is often considered more of a past superpower than a rising one and it is often noted that China has long surpassed the economic power of other developing countries and therefore can no longer be considered in the same category. Despite these and other variations, here we consider the term rising power to encompass developing countries that have considerable regional clout and that aspire to global power status, but that still face constraints on their capacity to influence global affairs even as they openly contest some of its key norms and institutions.

In 2006, the Foreign Ministers of four such states, Brazil, Russia, India and China, began holding regular informal diplomatic meetings at the margins of the General Debate of the UN General Assembly (UNGA). The four national administrations then came together at the First BRICS summit, held in Yekaterinburg in 2009. The coalition (and its acronym) later expanded to BRICS, with the inclusion of South Africa in 2011. Its agenda began to expand, not only to include the annual heads of state summits, but also ministerial and sub-ministerial meetings meant to explore and deepen cooperation in specific areas or even on particular topics [Stuenkel, 2015].

As a result of these characteristics, the overarching goals of the BRICS coalition are quite broad. First, in some areas the coalition strives for systemic change, in the sense of accelerating the transition from a U.S.-dominated unipolar order to a more multipolar system. Second, the coalition pushes the reform of key components of the global governance system in the direction of greater representation (especially for themselves) and effectiveness. In pursuit of these broad goals, the coalition has sometimes adopted a tone indicating that it is contesting certain aspects of the global governance system. As a result, they are sometimes viewed as working in opposition to the western liberal vision without being openly revolutionary. Laïdi, for instance, writes:

While they do not seek to form an anti-Western political coalition based on a counter-proposal or radically different vision of the world, they are concerned with maintaining their indepen-

dence of judgment and national action in a world that is increasingly economically and socially interdependent [...] They believe that state sovereignty trumps all, including, of course, the political nature of its underpinning regimes [Laïdi, 2012, p. 1].

In part because of this widespread understanding (especially in western institutions) of the BRICS as an oppositional and reformist force, the BRICS coalition has faced challenges of legitimacy. In response to these challenges and in a bid to advance its cooperation efforts, the group has worked to institutionalize itself through the establishment of dedicated institutions like the NDB. Thus, the paths of least resistance are far from being “automatic.” They are actively and constantly negotiated, with one or more member states pushing for the salience of certain topics. Unlike in established organizations, however, the coalition has tightly controlled its agenda-setting process so as to minimize the impact of external activist networks and the media.

Although the BRICS group has worked to institutionalize itself, in the sense of acquiring more stable characteristics and becoming a more recognized actor in international affairs, it has gone about this task incrementally, by setting goals and objectives on an annual basis via the declarations and action plans issued at the end of each summit. More recently, the BRICS coalition has also begun creating new institutions dedicated to certain areas of cooperation, such as development through the NDB, as either alternatives to existing organizations or as mechanisms for pressing for change (the two motivations not being mutually exclusive). Despite these initiatives, ten years after the initial talks that led to the founding of the BRICS, the grouping has chosen to remain a loose coalition based on the quest to find common areas of interest as they emerge and the context permits, rather than incorporating itself as an umbrella organization by establishing a BRICS headquarters, a BRICS presidency and a stable BRICS visual language with symbols such as a set logo, motto and organizational charter. Thus the dynamics involved in BRICS agenda-setting, whether by external actors such as activist networks or by internal ones such as institutional gatekeepers, can be assumed to differ substantially from that of an established multilateral organization.

Indeed, agenda-setting within a loose coalition like the BRICS may not conform to the patterns and dynamics observed in more established institutions like the UN entities and Bretton Woods organizations. Although BRICS is a strongly state-centric coalition, it has incorporated non-state actors in two ways. Within its initiatives and action plans, the coalition has convened meetings of private sector actors and civil society entities, albeit those sanctioned by the member states. For instance, there is a BRICS business platform and a BRICS think tank network with representative institutions from each member state. In addition to this relatively formal incorporation, there are also groups of civil society entities that participate in the broader BRICS process, often in a contestatory fashion. For example, they hold parallel BRICS meetings at the margins of the annual summits, foster or carry out research on the emerging BRICS agenda, or form networks of activists to promote certain causes within the five member states. Finally, the role of the media with respect to the BRICS agenda has become

more complex. News coverage of the coalition has been across the spectrum regarding its potential to improve upon status quo approaches to various international problems, ranging from highly sceptical to extremely optimistic.

Unlike with an established international organization, however, external actors do not have clear interlocutors or “issue gatekeepers” within the BRICS. This is especially true given that the coalition presidency changes annually, there is no headquarters with specialized offices and the BRICS “sherpas” are state representatives with no set channel for communicating with non-state actors. As a result, NGOs and other non-state actors working on BRICS issues must constantly probe and readjust, establishing new networks and seeking new sources of funding in order to influence the coalition’s agenda-setting. Some remain highly sceptical that the parallel events have succeeded in influencing the formal BRICS agenda, for instance in efforts to pressure the NDB to adopt stricter environmental and human rights standards in its loans for infrastructure development projects. In the case of loose coalitions, what Carpenter [2007] might call the sites of power and the strategies of influence are far less certain and rely on fewer precedents than within established organizations.

At the same time, the BRICS coalition has occasionally challenged certain elements of the global governance system, for instance demanding that concrete reforms to decision making at the World Bank and International Monetary Fund (IMF) should occur more quickly. However, the BRICS are not just about pressing for change, but also (increasingly) finding ways to meet perceived demands, as well as for the individual member states to expand their political influence in the international arena. They consider BRICS to be a platform of convenience within a broader gamut of options, enabling “forum-shopping.”

The coalition attempts to find “paths of least resistance” for cooperation: pathways that provide the least resistance to forward motion by a given object or entity, among a set of alternative paths) They use meetings to explore common ground and find areas in which to work together and in doing so they are influenced in their agenda-setting by the constraints posed by diverging or clashing interests on certain matters. Although all multilateral initiatives involve members with somewhat diverging interests, negotiations and discussions are geared towards finding common ground so as to establish priorities and launch concrete action.

In the next section, I analyse BRICS documents, especially those issued at the head of state summits (declarations and action plans), for indications on how the coalition’s security agenda has developed. The texts are analysed with respect to three types of security-related efforts since the first summit, in 2009: attempts to coordinate positions on specific security issues, namely armed conflicts and related normative stances; efforts to coordinate policies; and institution-building initiatives.

Security Cooperation in the BRICS Declarations

2009–2012: Security Creeps into the BRIC(S) Agenda

In the first phase of the BRIC initiative, security clearly occupied a secondary status compared to economic issues, due in part to the economic turmoil that beset global markets starting in 2008. The first two BRIC summits – those held in Yekaterinburg in 2009⁴ and Brasília in 2010, both prior to the entrance of South Africa – were mostly concerned with countering the ongoing effects of the global financial crisis and ensuring that G20 resolutions would be implemented. The only references to security in those years' declarations appear within the context of food security, although the Brasilia declaration also makes a fleeting reference to the need to combat terrorism.⁵

The declaration issued at the 2011 Sanya summit, which was the first to include South Africa as a member and to use the acronym BRICS rather than BRIC, expands the coalition's security agenda and deepens some of the topics.⁶ This can be explained with reference to the perceived window of opportunity around that time, opened by Secretary General Kofi Anna's call for UN reform, including changes to the Security Council. In particular, the Sanya declaration calls for the reform of the Security Council "with a view to making it more effective, efficient and representative, so that it can deal with today's global challenges more successfully." The document also mentions specifically that "China and Russia reiterate the importance they attach to the status of India, Brazil and South Africa in international affairs and understand and support their aspiration to play a greater role in the UN," although it stops short of saying that China and Russia back the other three states' inclusion among permanent seat holders.

On the normative side, the BRICS also begin to identify some shared principles, including a common respect for "the principle that the use of force should be avoided" and underscored that "the independence, sovereignty, unity and territorial integrity of each nation should be respected." This statement can be understood within the context of the deepening debate around the Responsibility to Protect (R2P) norm at the United Nations. As Ziegler [2016, p. 1] has noted, the BRICS were "suspicious of Western motives in advocating forcible intervention" and "justifiably sceptical that such interventions will do more good than harm."

In addition to marking the first BRICS reference to crisis-affected regions – the document singles out "turbulence in the Middle East, the North African and West African regions." The Sanya declaration also mentions specific crises scenarios, expressing deep concern regarding "the turbulence in the Middle East, the North African and West African regions." The document also marks the first BRICS attempt to coordi-

⁴ BRIC (2009) "Joint Statement of the BRIC Countries' Leaders." Yekaterinburg, 16 June. Available at: <http://www.brics.utoronto.ca/docs/090616-leaders.html> (accessed 05.01.2017).

⁵ BRIC (2010) "2nd BRIC Summit of Heads of State and Government: Joint Statement." Brasília, 15 April. Available at: <http://www.brics.utoronto.ca/docs/100415-leaders.html> (accessed 05.01.2017).

⁶ BRICS (2011) "Sanya Declaration." Sanya, 14 April. Available at: <http://www.brics.utoronto.ca/docs/110414-leaders.html> (accessed 05.01.2017).

nate positions on a specific conflict, that of Libya. That year, the member states coincided at the UN Security Council and resolutions to intervene in Libya by invoking the concept of R2P (“Responsibility to Protect” countries through multilateral intervention) had drawn reluctance or opposition among those rising powers. At Sanya, in fact, the five heads of state jointly voiced their opposition to the use of force in Libya and urged the warring parties to reach a peaceful resolution to the conflict. Accordingly, the declaration calls for the solution to entail peace and dialogue, brokered through the UN and regional organizations and mechanisms, especially the African Union High-Level Panel Initiative on Libya.

Around that time, terrorism started to become a recurring theme in the BRICS security discussions. The Sanya document deepens references to terrorism by stating that the UN “has a central role in coordinating international activities against terrorism within the framework of the UN Charter and in accordance with principles and norms of international law,” and urges the early conclusion of negotiations in the UN General Assembly of the Comprehensive Convention on International Terrorism and its adoption by all member states. If not quite a full-fledged policy coordination effort by the BRICS, this could be considered a mutually agreed upon priority for advocating global efforts to tackle terrorism. Finally, at Sanya the BRICS affirmed their commitment to international information security and especially to the need to combat cybercrime, topics that were fast gaining ground in global debates about so-called “new security threats.”

By the following year (2012), when the BRICS summit was held in New Delhi, the word security was included in the summit title itself: “BRICS Partnership for Global Stability, Security and Prosperity.” This remains, as of this writing, the only time the word security has appeared in any BRICS summit heading. Indeed, the New Delhi meeting proved to be something of a landmark in the inclusion of security in the BRICS agenda. In the 2012 declaration,⁷ issues pertaining to international security make up nearly half the paragraphs in the document, although these sections focus on common positions on issues and conflicts rather than concrete initiatives by the BRICS. Insofar as the summit host country has considerable pull regarding the breadth of topics covered by the declaration issued that particular year, this security-heavy content can be understood in light of Indian concerns as well as its aspiration to become a more prominent player in global security affairs.

With respect to individual armed conflicts, the document is far more detailed than the previous ones, with separate paragraphs dedicated to specific conflicts. There are, for instance, passages on the Arab-Israeli conflict; the deteriorating situation in Syria; tensions over the Iranian nuclear program and the stabilization and development of Afghanistan, including with respect to terrorism and illicit drug trafficking. Finally, in the New Delhi declaration, the BRICS strengthen the links between their emerging concept of security and that of development, by addressing human security concerns

⁷ BRICS (2012) “Delhi Declaration.” New Delhi, 29 March. Available at: <http://www.brics.utoronto.ca/docs/120329-delhi-declaration.html> (accessed 05.01.2017).

that are dear to their foreign policy agendas. Accordingly, energy security and food security also appear in the document and links are drawn to two topics that occupied centre stage of international affairs discussions that year – climate change (due to the Paris agreement negotiations) and sustainable development (because of the Sustainable Development Goals debates).

The inclusion of such topics reflects the still-tentative, exploratory nature of early BRICS discussions around international security on the sidelines of the main item on the coalition agenda: economic cooperation. It is telling that, alongside forward-looking ministerial meetings in six other areas of cooperation, the concise New Delhi Action Plan – the first such document issued alongside a BRICS summit declaration, calls for a meeting of the BRICS high representatives responsible for national security, but without providing further details.⁸

2013–2014: Coordinating Positions on Armed Conflicts

The eThekweni Declaration⁹ that came out of the Durban, South Africa summit in 2013 also makes several references to global and regional security issues and again illustrates how the host country can tilt the BRICS agenda in the direction of its particular security interests. Whereas India clearly had a hand in introducing a wider gamut of security concerns to the BRICS agenda in 2012, in Durban the South African government pushed for the inclusion of an African regional development agenda, with security making intermittent appearances. In addition to reaffirming the coalition's commitment to UN reform, the document acknowledges “the central role of the African Union (AU) and its Peace and Security Council in conflict resolution in Africa” and calls upon the UN Security Council (UNSC) to “enhance cooperation with the African Union, and its Peace and Security Council, pursuant to UNSC resolutions in this regard.” Special concerns regarding instability are voiced regarding North Africa, in particular the Sahel and the Gulf of Guinea. Like the New Delhi declaration, the eThekweni document also devotes entire paragraphs to specific crises, but innovates by mentioning specific mechanisms and commitments to concrete initiatives launched elsewhere within the international community. For instance, the BRICS should express support for the Geneva Action Group in the case of Syria and remind the international community of the commitments to Afghanistan that were made at the Bonn International Conference in December 2011.

In keeping with the regional focus of the summit, the eThekweni Declaration adds three African countries to the roster of conflicts affected by the BRICS common positions agenda: Mali, the Central African Republic and Democratic Republic of Congo. In the case of Mali in particular, the document highlights the role of the Economic

⁸ BRICS (2012) “Delhi Action Plan.” New Delhi, 29 March. Available at: <http://www.brics.utoronto.ca/docs/120329-delhi-declaration.html#actionplan> (accessed 05.01.2017).

⁹ BRICS (2013) “BRICS and Africa: Partnership for Development, Integration and Industrialization.” Durban, 27 March. Available at: <http://www.brics.utoronto.ca/docs/130327-statement.html> (accessed 05.01.2017).

Community of West African States (ECOWAS) and Mali's neighbouring countries (as opposed to non-African states like France) in resolving the escalating violence. Again, here the BRICS are underscoring the primacy of regional actors in addressing the outbreak of violent conflict, without detracting from the UN's role as a source of support and normative debate. Within the year's Action Plan, the meeting of BRICS National Security Advisors is listed second among 18 items; second only to the meeting of BRICS Ministers of Foreign Affairs on the margins of that year's UN General Assembly Meeting.

The final document of the 6th BRICS summit, held in Fortaleza, Brazil¹⁰, reiterated many of the positions made in earlier declarations and added themes close to those of the Brazilian international agenda, such as calling attention to political instability in Guinea-Bissau. Brazil has longed worked to support the impoverished African country through UN and CPLP (Community of Portuguese Language Countries) channels. The declaration also voices concerns regarding additional regional crises, including the abduction of the women and children of Chibok, Nigeria by the Daesh-affiliated terrorist group Boko Haram and the humanitarian crisis in South Sudan, as well as instability in Iraq. The summit took place after the annexation of Crimea by Russia, but the only mention of the situation there is a call for restraint "from all actors involved." The section on Syria is particularly salient and detailed, with the BRICS supporting the mediation role played by the UN but insisting that the peace process be led by Syrians.

Finally, the Fortaleza document expands on BRICS security thematically. The text includes a call for convening a conference on the establishment of a Middle East zone free of nuclear weapons and weapons of mass destruction. It similarly demands the prevention of an arms race in outer space, as well as efforts in combating organized crime, piracy and armed robbery at sea, international drug trafficking and cybersecurity. Thus the Fortaleza summit both broadened the security agenda – at least, in terms of a common position on ongoing conflicts – and made armed conflicts a more visible part of BRICS security discussions. Building on the normative ideas that emerged in the early BRICS declarations, the Fortaleza document also hints at an emergent BRICS approach to conflict prevention by underscoring the intertwined nature of development and security.

2015–Present: Brainstorming Joint Initiatives

The 2015 Ufa declaration¹¹ condemns unilateral interventions and emphasizes "the unique importance of the indivisible nature of security, and that no State should strengthen its security at the expense of the security of others." The document plac-

¹⁰ BRICS (2013) "BRICS and Africa: Partnership for Development, Integration and Industrialization." Durban, 27 March. Available at: <http://www.brics.utoronto.ca/docs/130327-statement.html> (accessed 05.01.2017).

¹¹ BRICS (2015) "Ufa Declaration." Ufa, 9 July. Available at: http://www.brics.utoronto.ca/docs/150709-ufa-declaration_en.html (accessed 05.01.2017).

es particular stress on cyber-security and mentions one security-specific focus group which has regular discussions: the Working Group of Experts of the BRICS States on Security in the Use of ICTs. With respect to the Syrian conflict, the Ufa declaration expresses “support for the steps of the Russian Federation aimed at promoting a political settlement” (a reference to consultations held in Moscow between Syrian parties in January and April 2015) and also expresses concern that the spillover in Iraq and Syria will result in growing terrorist activities in the region. The document reaffirms the coalition’s commitment to principles like territorial integrity, independence and national sovereignty. In addition to making the usual call for a meeting of national security advisors, the accompanying Action Plan makes the first concrete reference of any BRICS action to meetings on specific topics. These include combating illicit drug traffic; the security of outer space activities; addressing the situation in the Middle East and North Africa; information and communications technologies (ICTs); and infectious disease crises (in the aftermath of the Ebola emergency in parts of Africa).¹²

The 2016 Goa Declaration adds to the BRICS security agenda the issue of UN peacekeeping (India is among the UN’s top troop-contributing countries) and calls for the strengthening of the role, capacity and effectiveness of peacekeeping. It also expands its concerns regarding terrorism to include the issue of terrorist activity fundraising, especially via links to money laundering. Terrorism is by far the most salient issue in the Goa Declaration: there are a full 43 references to it in the text.

By this time, the BRICS summit declarations contained language that was negotiated not only at summits but also during discussions held in the meetings of the High Representatives on Security/National Security Advisors. Although these meetings do not yield specific documents, there is typically some media coverage, especially by host country outlets, on the general themes of the debates and occasionally on the bilateral meetings that are held parallel to the main event. The first of these meetings was held in May 2009 in Russia, with the aim of discussing the security repercussions of the global financial crisis,¹³ with subsequent meetings in Brasilia (April 2010) and Sochi, Russia (October 2010) that covered general security topics. At the meetings in Moscow (2015) and New Delhi (2016), however, these discussions took on a more urgent tone and covered specific topics, suggesting that Russia and India have both played a lead role in trying to advance the BRICS security agenda, especially on issues related to terrorism.¹⁴ These debates remain largely exploratory in nature, but they have covered topics as concrete as the role of Daesh (ISIS) and Boko Haram and have included initial attempts to coordinate policies in issues like cyber security, terrorism and piracy.

¹² BRICS (2015) “Ufa Action Plan.” Ufa, 9 July. Available at: <http://www.brics.utoronto.ca/docs/150709-ufa-action-plan-en.html> (accessed 05.01.2017).

¹³ The BRICS Post (2015) “Putin to Meet BRICS National Security Advisors in Moscow.” 25 May. Available at: <http://thebricspost.com/putin-to-meet-brics-national-security-advisors-in-moscow/#.WHZwP7GZPuQ> (accessed 05.01.2017).

¹⁴ Gabinete de Segurança Institucional da Presidência da República (2016). “Reunião de Assessores Nacionais de Segurança do BRICS.” Available at: <http://www.gsi.gov.br/noticias/2016/reuniao-de-assessores-nacionais-de-seguranca-do-brics> (accessed 05.01.2017).

At the 2016 New Delhi meeting, the BRICS security representatives also exchanged assessments of recent developments in the West Asia and North Africa (WANA) region. Three issues emerged as possible paths of least resistance in BRICS security cooperation. When they addressed cyber security, the five countries agreed to share information and best practices; combat cyber-crimes; and improve cooperation between state intelligence and law enforcement agencies, including joint cyber security research and development and capacity-building. When the reps met to discuss terrorism, the meeting followed up on the first meeting of the BRICS Working Group on Counter Terrorism, which was held a day before in the same city. The five states also agreed to expand BRICS counter-terrorism cooperation to include measures to deny terrorists access to finance and hardware such as equipment, arms and ammunition, even as they underscored the need for a global legal framework for dealing with terrorism. Finally, the BRICS representatives agreed to pool efforts to counter terrorism and violent extremism emanating from the Middle East and, more broadly, to establish a BRICS Forum to progressively consolidate cooperation and exchanges among respective agencies in security related fields.¹⁵ This was a first, tentative sign of institutionalization in BRICS security cooperation. These meetings have become more frequent and discussions cover an increasingly broad gamut of topics, with signs that mechanisms may be created in the next few years to tackle specific security challenges.

One final innovation from the Goa and Delhi meetings is the involvement of organized civil society in BRICS security issues; in October 2016, nineteen scholars, diplomats and politicians from the BRICS countries wrote an open letter to the BRICS leaders urging an end to the Syrian conflict.¹⁶ Although a small effort, this may indicate that the BRICS role in international security may in the future become more controversial, even outside of western circles and may be subjected to further scrutiny from non-state actors.

Shared Interests and Hurdles to BRICS Security Cooperation

BRICS Shared Interests in Peace and Security

The BRICS documents indicate that the coalition's security agenda has advanced, albeit unevenly and very incrementally, since the group's creation in the mid-2000s. During the first annual summits, the foremost concerns facing the member states centred on countering the effects of the financial crisis, as reflected in the weight accorded by the coalition to economic cooperation among the BRIC states as well as to brainstorming ways to mitigate the shock. Over time, with successive summits as well

¹⁵ Ministry of External Affairs, Government of India (2016) "Meeting of the BRICS High Representatives for National Security." 15 September. Available at: http://mea.gov.in/press-releases.htm?dtl/27401/Meeting_of_the_BRICS_High_Representatives_Responsible_for_National_Security (accessed 05.01.2017).

¹⁶ The BRICS Post (2016) "Letter to the BRICS Leaders: Urgent Response Needed on Syria." 16 October. Available at: <http://thebricspost.com/letter-to-brics-leaders-urgent-response-needed-on-syria/#.WIDBDbGZNEI> (accessed 05.01.2017).

as regular ministerial and sub-ministerial meetings, the BRICS Declarations (and accompanying Plans of Action) came to reflect a far broader agenda, including not only concrete initiatives but also common positions on key global issues and debates, especially those related to the reform of global governance.

Thus, development and economic cooperation emerged as the first broad area in which the four countries (and, with the inclusion of South Africa, eventually five) have found paths of least resistance to cooperation. This is reflected not only in the frequency of related meetings but also, more recently, in the founding of the NDB and other initiatives, such as the 2015 creation of the Contingency Reserve International Arrangement (CRA), a framework meant to provide protection against global liquidity pressures. The coincidence of interests in expanding their respective South-South development cooperation agendas (or, at the least, the relative lack of clashing interests in this area) permitted relatively agile agenda-setting in economic and development cooperation. In development financing in particular, the coalition offers the member states a way to amplify the reach of their respective South-South cooperation while strengthening their political claims, including their critiques of Northern aid and their calls for global governance reform. This agenda-setting has been largely internal, driven by the governments of the BRICS states. However, parallel initiatives and the awareness-oriented events of NGOs, for instance through events held on the margins of BRICS summits, have also created new pressures for the BRICS to adopt certain norms in development cooperation. The NGOs, for example, draw attention to wealth distribution, environmental standards and labour practices related to infrastructure financing.¹⁷

In international security, on the other hand, the agenda-setting has been slower and has proceeded far more cautiously, and has almost exclusively been limited to state channels. During the first five years of the existence of the BRICS as a coalition, the security content of the Declaration and Plans of Action was limited to rather abstract joint positions on major conflicts, such as those in Libya and Syria, or identifying broad principles that the member states agreed upon, such as non-intervention. In the case of the Libyan intervention, the BRICS were all members of the UN Security Council in 2011, where they were able to achieve some level of coordination on their positions, all of them invoking, to some extent, the principle of respect for national sovereignty in challenging the imposition of the R2P norm. Similarly, when the Syrian war broke out in 2011, the BRICS seemed to converge in their opposition to, or reluctance to endorse, proposals for military intervention, including via the UN [Abdenur, 2016]. Since 2015, the BRICS have moved towards their first concrete joint initiatives, but these remain exploratory and highly topic-specific, such as the working group on combatting terrorism.

¹⁷ See, for instance, Lysa John (2012) “Engaging BRICS: Challenges and Opportunities for Civil Society.” Oxfam India. Available at: <https://www.oxfamindia.org/sites/default/files/Working%20paper%2012.pdf> (accessed 05.01.2017).

As reflected in the expanding sections of BRICS declarations dedicated to security issues, and in the increasing frequency of security-related BRICS meetings, the coalition clearly aspires to develop a denser security agenda. In addition, despite their heterogeneity, the five member states do share some interests in this area. The BRICS leaderships frequently promote discourses of long-term peace and stability, although they may have somewhat different conceptions of how this may be attained and what the desirable status quo would look like, especially in their own vicinities and in regions they consider to be strategic to their role in international affairs. Russia, for instance, claims that it has intervened militarily in Syria in order to help preserve stability in the region, and asserts that its role is justified as “intervention by invitation” since it was prompted by requests from the Bashir al-Assad government.¹⁸ China’s growing interests abroad have riled up tensions with some of its neighbouring states, including over territorial disputes in the Pacific, but the Chinese government views peace and stability, both regionally and globally, not only as an end in itself, but also as a necessary condition to ensure prosperity.¹⁹ India’s border hostilities, especially with nuclear rival Pakistan, are framed by Indian leaders as issues pertaining to territorial integrity, but generally presented as obstacles to broader regional stability.²⁰

Second, all of the BRICS want more autonomy with respect to international security, both within and beyond their own regions, and to be recognized as contributors to stability rather than free riders or “spoilers” of international efforts for peace. Even as they press for more global governance representation, these countries are demanding to become bigger players within established security governance systems. This has manifested in their work to expand and/or diversify their personnel contributions to UN peacekeeping, financial contributions to peacebuilding and efforts in international conflict mediation, sometimes outside of their own regions. Brazil worked with Turkey in an attempt to mediate growing tensions over the Iranian nuclear program [Lazarou, 2016] and even China, which has historically adhered to a strong discourse of non-intervention, has recently offered to mediate in Middle Eastern and African armed conflicts [Chen, 2015; Tiezzi, 2014].

Third, the BRICS states have sometimes, either individually or collectively, expressed scepticism with respect to enshrined approaches to international conflict. In particular, they have called for more effective mechanisms for dealing with armed conflict, especially given the changing nature of war (for instance, due to the growing role of non-state actors in both intra- and inter-state conflicts). Even Russia, which has

¹⁸ Tass (2015) “Lawmakers Authorize Use of Russian Military Force for Anti-IS Airstrikes in Syria.” 30 September. Available at: <http://tass.com/politics/824795> (accessed 05.01.2017).

¹⁹ See, for instance, Ministry of Foreign Affairs of the People’s Republic of China (2015). “Speech in National University of Singapore.” 7 November. Available at: http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1313709.shtml (accessed 05.01.2017).

²⁰ The Times of India (2017) “India Wants Peace at Borders, But Don’t View It as Our Weakness: Army Chief on Ceasefire Violations.” 15 January. Available at: <http://timesofindia.indiatimes.com/india/india-wants-peace-at-borders-but-dont-view-it-as-our-weakness-army-chief-on-ceasefire-violations/article-show/56573356.cms> (accessed 05.01.2017).

traditionally adopted a more cautious stance towards UN Security Council reform, especially in the sense of maintaining security-related attributions within the scope of the Council, has repeatedly called for more conflict prevention, in part as an alternative to the normalization of R2P.²¹

Fourth, the BRICS countries aspire to become more direct participants in norms-setting in international security, although they have engaged in different ways and to different extents in global normative debates. Even as these states are sometimes accused of acting more as “norms blockers,” especially with respect to R2P, they have also proposed changes at the conceptual and operational levels. Examples include: Brazil’s proposal of Responsibility while Protecting (RwP) as a way to temper R2P; the frequent calls by South Africa for greater investment in conflict resolution through political dialogue; and the China-led proposal of the idea of “Responsible Protection” [Abdenur, 2016]. These points show that the BRICS have some general goals in common in international security, which may facilitate the development of topic-specific joint positions and initiatives in areas deemed to be paths of least resistance in the BRICS international security agenda.

Challenges to Advancing a Security Cooperation Agenda

Despite the common objectives identified above, there are internal as well as external constraints to the degree of political cohesiveness that the highly heterogeneous BRICS can attain on the security agenda.

First, despite the coalition members’ increasingly apparent interest in cooperating on international security issues, the BRICS is not a defence alliance. As a loose arrangement of rising powers, the BRICS has no joint military force: it “lacks teeth” in the sense of coordinated hard power. Furthermore, the coalition members have never publicly expressed any ambition to forge such an alliance through mutual guarantees against attacks by other states and menaces. If one of the BRICS enters an armed conflict and is attacked, the other countries are not beholden to defend it, as in formal defence alliances.

Second, the BRICS coalition is a relatively recent creation. Some of the scepticism surrounding its level of institutionalization is levelled at the coalition despite it having been around for less than a decade (using the first heads of state summit as a baseline). Although some of the bilateral ties among members, especially those with China, have deepened considerably even outside of the BRICS initiative, there remains a degree of political distance and geographic remoteness among the BRICS countries, and in some cases, even geopolitical rivalries, as in the case of China and India. Given the heterogeneity of the group, as with any multilateral initiative (outside of established

²¹ Permanent Mission of the Russian Federation to the United Nations (2011) “Statement by the Permanent Representative of the Russian Federation to the United Nations H. E. Vitaly Churkin at the UN Security Council Meeting on Conflict Prevention.” 22 September. Available at: http://russiaun.ru/en/news/sc_preventive_diplomacy (accessed 05.01.2017).

organizational boundaries), the coalition's first objective is to enhance mutual understanding and confidence-building, which helps to explain the incremental and so far largely exploratory nature of the security agenda.

Third, the BRICS is a transregional entity. Unlike regional organizations, which rely on spatially defined common interests to develop a collaborative agenda, there is no spatial logic of contiguity to the BRICS – that is, the coalition is not strictly concerned with a particular territory. This poses an obstacle to security cooperation insofar as most security threats (with some exceptions, such as cyber issues) have a spatial dimension. Three of the members (Russia, China and India) are adjacent to one another, but the other two states (Brazil and South Africa) are separated from the rest by vast physical distances. Thus in the BRICS, political space is largely divorced from any geographic space, at least until a spatially defined cooperation initiative, such as China's One Belt, One Road emerges as a focal point of the BRICS development and even security agendas.

Fourth, the split between BRICS within the UN Security Council, while not necessarily an impediment to security cooperation in general, represents a considerable divergence in their status and influence within the international security community. Not all of the BRICS states have a seat at the highest table of international security discussions. P-5 members, even when they have voiced support for reform of the Council or even openly backed a particular candidate for a permanent seat, remain vague and not particularly committed to an overhaul of the body. Another split among the BRICS involved nuclear and non-nuclear states; while Russia, China and India possess nuclear weaponry, the other two countries voluntarily gave up their nuclear weapons programs in the last decade of the Cold War. Such internal differences pose hurdles to cooperation on certain key fronts because they reflect power asymmetries not only in hard power, but also in their individual capacity to influence key debates in security, even if the BRICS collectively promotes a general discourse of peace and stability.

Fifth, these countries' geo-political interests and contexts are vastly different. This is reflected, for instance, in their widely divergent relations with neighbouring countries. China has become more assertive and its rise is contributing towards new or renewed tensions and territorial disputes, as well as increasing rivalry with the U.S. over the latter's role in Asian security. On the other hand, although Brazil has a very serious internal problem, that of diffuse violence as expressed in high homicide rates, it has had 153 years of peace with its neighbouring states after the peaceful negotiation of its borders. In another example, the BRICS countries diverge on their stances and policies to combat terrorism. In three of these countries, Russia, China and India, internal separatist groups are considered by the government to be terrorist groups with international links. In contrast, while Brazil and South Africa have encountered phases of political turbulence, they do not face territory-based insurgencies or have home grown groups that are formally considered terrorist organizations by those governments. In fact, on

occasion Brazil has often been highly critical of foreign policy discourses that use the label terrorism to justify military interventions.

Finally, the recent deepening of geopolitical antagonism between Russia and the western countries, especially the U.S. and its NATO allies, since the annexation of Crimea generates dilemmas for the other BRICS countries, especially the democratic ones that may not be as keen to pick sides. On this point, the election of Donald Trump as U.S. president in late-2016 may yet provoke further geopolitical shifts and realignments that could impact the BRICS' ability to forge a cohesive agenda in international security.

Conclusion

Compared to development cooperation, which has emerged as the clearest path of least resistance in BRICS agenda-setting during the group's first decade of existence, international security has proven more elusive. On the one hand, some advances can be noted and must be understood in light of the BRICS coalition being a relatively recent creation composed of countries that are still "getting to know one another." In terms of coalition institutionalization, security has become a more common topic of discussion at BRICS meetings, including the annual head of state summits and ministerial-level meetings, such as those of the national security advisors. On the other hand, these discussions have mostly entailed efforts to coordinate general positions on specific conflicts and issues, with only incipient discussions of how to coordinate policies or implement joint action.

The comparatively fragmented nature of this coordination can be understood in light of the internal and external constraints on intra-BRICS collaboration in security, including the lack of a shared spatial interest, asymmetries in influence and status and differing geopolitical concerns. These differences make it harder for the BRICS to form a comprehensive agenda, but they don't pose obstacles to cooperation in niche security areas, or even around some central issues. For instance, although there are some divergences among the BRICS countries on how to approach terrorism, three of the members states — Russia, India and China — appear highly motivated to create a thematic agenda that goes beyond position coordination to include concrete mechanisms. Other security concerns that have featured more prominently on the BRICS agenda have clear links to development problems: food security, energy security and maritime security, including piracy. Since the BRICS development and sustainability agendas have expanded considerably, these security areas may represent issue-specific paths of least resistance. In addition, given its growing salience in global debates and its lack of well-defined spatial logic, the issue of cyber security and outer space security are also likely to gain ground on the BRICS agenda. Thus far, organized civil society in the BRICS countries globally has been more focused on the development initiatives of the coalition, especially the New Development Bank and its normative role in infrastruc-

ture financing. As a result, the BRICS security agenda will proceed through top-down state channels.

In terms of institution-building and concrete agenda-setting, there is one unexplored area in which the BRICS may find enough common ground to launch new initiatives: conflict prevention. To different extents, all of the BRICS have individually defended the idea that the international community needs to better engage in preventive measures rather than focus narrowly on remedial approaches. They have also played a role in post-conflict settings, whether through stabilization or peacebuilding. These efforts dovetail with a discussion at the UN, which has gained momentum with the 2017 inauguration of Secretary-General António Guterres, to boost the organization's role in preventing armed conflict. The idea in BRICS documents that development and security are closely intertwined may offer a starting point for developing concrete mechanisms and models for tackling structural or "root" causes of armed conflict. In addition, the BRICS could link South-South development cooperation, including investment in infrastructure, to conflict prevention. If the BRICS coalition were to launch an institution dedicated to conflict prevention and could boost their legitimacy as contributors to peace and stability, it could advance its security agenda in a timely and innovative way.

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Могут ли страны БРИКС сотрудничать в вопросах международной безопасности?¹

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БРИКС совершила значительный прогресс в экономическом взаимодействии и сотрудничестве в целях развития, в то же время объединение не было столь же успешным в разработке и реализации собственной повестки дня в сфере международной безопасности, хотя имеются явные признаки того, что БРИКС заинтересована в развитии сотрудничества в этой сфере. Почему же тогда БРИКС медлит с развитием взаимодействия в сфере безопасности, и каковы перспективы наращивания сотрудничества в этой области?

В статье рассматривается формирование БРИКС повестки дня сотрудничества в сфере безопасности, в то время как объединение старается утвердиться в качестве гибкой, но все же последовательной организации и влиятельного коллективного актора в международных отношениях. Обращаясь к ключевым документам БРИКС и итоговым отчетам встреч по вопросам безопасности, автор анализирует три направления связанной с безопасностью деятельности, начавшейся с первого саммита объединения в 2009 г.: 1) попытки координации позиций по конкретным вопросам безопасности, таким как вооруженные конфликты, и соответствующим нормативным подходам; 2) попытки координировать политику; 3) инициативы по формированию институтов. Автор приходит к выводу, что в основном дебаты по вопросам безопасности в рамках БРИКС фокусируются на первом направлении. В то же время если стороны еще предпринимают какие-то усилия по координации политики, то в вопросах формирования институтов достигнут минимальный прогресс. Показано, что международная безопасность до сих пор не относится к наиболее простым для обсуждения темам, к которым обращаются страны — члены объединения в целях углубления сотрудничества в рамках коалиции. Этот факт можно объяснить внутренними различиями стран-членов и ситуативными факторами. Препятствия для более целостной повестки дня БРИКС не являются непреодолимыми, однако они могут сужать диапазон тем, которыми занимается объединение. В частности, имеется непроработанная область, в которой пять стран могли бы расширить сотрудничество, используя свой опыт в сфере содействия международному развитию и миротворчества. Эта сфера — предотвращение конфликтов.

Ключевые слова: БРИКС; международная безопасность; определение повестки дня; глобальное управление

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Impact of Service Liberalization on the Participation of BRICS Countries in Global Value Chains¹

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Abstract

This article examines the nature and degree of influence of service liberalization on the participation of the BRICS grouping of Brazil, Russia, India, China and South Africa in global value chains (GVCs).

The inverse relationship between the barriers in infrastructure services and the degree of participation of countries in GVCs was determined using econometric analysis methods. Using data on the structure of trade in goods and services in terms of value added, the situation of developing countries was analyzed using the example of the BRICS in production and service GVCs. China and India are the most deeply integrated countries in the international production and service chains while Russia, Brazil and South Africa participate in the production value chains as suppliers of raw materials and intermediate goods with low added value. However, these countries have a significant potential to expand their participation in the system of international production by improving the infrastructure necessary for the operation of the GVC.

This study of the experience of liberalization in certain service sectors in BRICS countries reveals the positive impact of reducing barriers in maritime, rail and air transportation sectors, as well as finance, for improving the quality and reducing the cost of services. The authors note that in many respects, these effects were the result not only of reducing barriers in services, but also the implementation of a set of measures aimed at increasing the investment attractiveness of countries. The article concludes that the liberalization of infrastructure services industries can become one of the tools for integrating BRICS countries into the GVC. However, this liberalization should be part of a broader development strategy that includes trade and investment policy measures aimed not only at increasing participation in global production, but also overall economic development of the country.

Key words: global value chains; value added; service sector; BRICS; liberalization

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Global Value Chain and Trade Policy in Services

Services providers play a significant role in the development of global value chains (GVCs). In this case, it is not only about the GVCs in the service sector (the so-called services GVC), but also the GVCs in various industries (production GVC). Services account for more than 40% of all international trade in terms of value added [Lanz and Maurer, 2015]. These are transport, communications and other business services that are particularly important in the GVCs and international production networks. The production of goods and services is closely interrelated and investment decisions influence the dynamics and geography of international trade flows.

To date, the extent and nature of the participation by developed and developing countries in value chains is significantly different. The former are interested in maximizing the added value created on their territories, while the latter are just beginning to move up the integration steps in the GVCs. However, services play a key role at all stages of involvement of the economy in the GVC system.

The BRICS grouping of Brazil, Russia, India, China and South Africa has a significant industrial potential but continues to remain relatively closed to foreign services providers. Based on the foregoing, it can be assumed that reducing barriers in the services sector could have a positive impact both on the services sector and on the productivity of industrial enterprises. The purpose of this article is to determine the nature and extent of the impact of service liberalization on the participation of BRICS countries in global value chains. This analysis begins with a review of the existing research on this topic and identifies the main approaches to assessing barriers to trade in services. It then evaluates the impact of barriers to trade in services on the degree of involvement of countries in the GVC and examines the features of liberalization of services in the BRICS countries. The analysis concludes by specifying promising areas for increasing the involvement of the BRICS countries in the GVC, taking into account the specifics of national economic development.

Literature Review

The BRICS economies have strengthened their positions in international trade for more than ten years. This process has attracted growing interest from the academic community as reflected in modern research on the participation of BRICS countries in international trade in goods and services and the prospects for deepening cooperation between the countries in this field.

Sharma and Kallummall [2012] investigated the possibility of concluding a free trade area between BRICS countries using the Global Trade Analysis Project (GTAP) model simulation. They found that the elimination of import tariffs between countries will have a generally positive effect on welfare and macroeconomic indicators for all participating BRICS countries. The growth of trade between them will lead to a negative trade balance for all member countries except Russia.

Yuan and Zhao [2011] estimated the foreign trade of the BRICS using comparative, statistical and historical analysis. Their study focused on trade in goods and showed a rather high trade dependence for the BRICS countries (led by China, unlike the least dependent Brazil) which will lead to the risk of trade volatility and will negatively affect these economies. Based on their results, most of the exports from China, South Africa and Russia are concentrated in developed countries while exports from India and Brazil are concentrated in emerging markets. As for imports, except for Russia, BRICS countries mainly import from emerging markets. The study concludes that although BRICS members are developing countries with their own problems, they can be complementary and can encompass a new growth model.

Indian researcher Bhattacharya [2016] investigated the relationship between exports and imports of goods and services and economic growth per capita for the BRICS countries using the Granger causality test, FMOLS and DOLS. Bhattacharya concluded that all three variables are cointegrated: exports and imports of goods and services contribute to economic growth per capita in the long term.

De Castro [2012, 2013] has studied the changing patterns of the BRICS's geographical trade in exports in the context of global trade developments over the past decade as well as the development of trade flows between the BRICS and the Triad countries (the U.S., the EU and Japan). He concludes that while the Triad remains one of the most important trading partners for the BRICS, its overall share in the BRICS trade is declining.

Special attention should be paid to work that studies the development of financial services and cooperation between the BRICS countries. Interest in this topic increased significantly after the creation of the BRICS Development Bank. The impact of trade in financial services in the BRICS countries, as well as the potential of financial institutions within the group, is considered in the work of authors including Larionova [2016], Khatun [2016] and Biziwick, Cattaneo and Fryer [2015].

A review of the studies carried out on BRICS participation in international trade reveals a shortage of systematic empirical and theoretical studies of the trade links of BRICS countries in the context of the growing role of global value chains. In particular, insufficient attention is being paid to comparative studies of their participation in the GVCs. As a rule, recommendations for involving countries in global production chains are based on measures and programmes developed by international organizations and western institutions which often do not take account of the specific national economic considerations of different countries. In this regard, the conclusions of this article may be of interest from a research point of view and are of practical importance.

It should be noted that the services sector has a huge potential to contribute to the economic development of BRICS countries, and to their trade and economic relations within the group and with other countries. At the same time, this potential is unfairly overshadowed by the attention of economists to problems in the tertiary sectors of BRICS economies in which considerable trade restrictions remain.

This article offers a comparative analysis of the involvement of the BRICS service sectors in the GVC by reducing barriers to various service industries. Based on data

on the structure of trade in goods and services in terms of value added, the situation of the BRICS countries in production and service GVC is analyzed and demonstrates that the automatic liberalization of the services sector does not lead to unambiguously positive results for these economies. However, with a consistent national policy aimed at improving the competitive environment in the domestic market, the liberalization of service industries, mainly infrastructure, can become an important tool for inclusion in global value chains.

The Impact of Barriers to Services Trade for Participation in the GVC

The transformation of the world trade structure requires a revision of trade policy to account for the functioning of the GVC. Research demonstrates a direct relationship between a country's participation in the GVC and the growth rates of its gross domestic product (GDP), the intensity of foreign investment inflow (FDI) and enterprise productivity [OECD, 2013]. Empirical studies have confirmed the positive impact of reducing barriers to trade in services on the factors contributing to the country's integration into the GVC: trade flows, employment, GDP growth rates [Nelson and Taglioni, 2009], productivity and export potential of firms [Knobel, 2012]. Nevertheless, the degree of protectionism in the services sector still far exceeds the barriers that exist in the trade of goods. Greater openness in the service sector could serve as an effective tool for deepening the integration of countries into the system of international production. Research indicates that there is an inverse relationship between the magnitude of barriers in the services sector and the extent of the country's involvement in the GVC. Moreover, since infrastructure services (finance, telecommunications and logistics) play a key role in the operation of production GVCs, liberalization of these industries in the future can have a significant positive impact on the expansion of countries' participation in value chains.

Analysis of existing barriers to trade in services is difficult due to the specific characteristics of services that distinguish them from goods. Because services do not have a material form and their production is inseparable from consumption, it is difficult to apply the customs duties that are usually used when importing goods. Limitations in services can be conditionally divided into direct and indirect forms, which in turn are divided into discriminatory and non-discriminatory limitations (with the latter applicable both to foreign and national service providers). Direct restrictions include quotas and customs fees for the movement of goods necessary for the provision of services, as well as for the movement of individuals. Indirect restrictions include measures that do not directly restrict trade in services but make it difficult to implement: restrictions imposed by the requirements of national legislation to the organizational and legal form of foreign service providers, the system of public procurement, price regulation and others.

It should be noted that not all restrictions in services are barriers to trade, as barriers imply the existence of a real and measurably negative impact on trade in services.

Thus, the existing methods of quantifying barriers in services trade are divided into methods for measuring the size of the constraints themselves (frequency measurement) and modeling the economic effect from their application (quantitative and price measurement) [Nielson and Taglioni, 2009, p. 37].

To verify this assumption, the Services Trade Restrictiveness Index (STRI), calculated by the Organisation for Economic Co-operation and Development (OECD) for 22 service sectors and covering 44 countries, was selected as a source of information on barriers to international trade. All barriers to import services in each sector are grouped into five main restrictive trade policy measures that are common to all sectors: measures to ensure normative transparency, restriction on the entry of foreign companies into the national market, restrictions on the movement of individuals, measures aimed at restricting competition and other discriminatory measures. Each barrier takes the value of 0 or 1 in its absence or presence respectively, and these values are weighted to take account the specific characteristics of the various sectors. Using these data, the restrictiveness of each sector or service sector of the country as a whole is calculated. To date, the STRI database is one of the most complete and detailed sources of information on barriers to international trade in services.

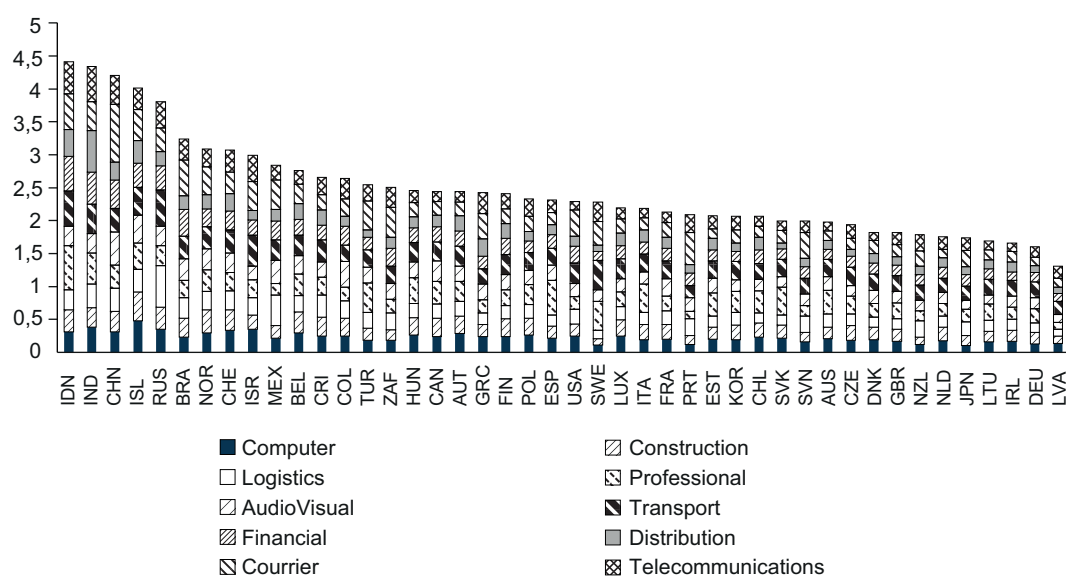


Fig. 1. STRI Index Values for Service Sectors, 2015

Source: Calculations based on data from OECD Services Trade Restrictiveness Index (April 2017).

Figure 1 shows the value of the level of barriers in various countries by services sector. The graph illustrates that the average level of barriers in developing countries is much higher than in OECD countries, with the most protected sectors being the professional and courier services, as well as key infrastructure sectors such as transport and telecommunications.

The STRI and information about the share of foreign value added in total exports of each country (forward linkages) and the share of national value added in exports of intermediate or final products from third countries (backward linkages) was used to test the hypothesis that there is an inverse relationship between the level of barriers in the services sector and the country's participation in GVCs. The STRI is calculated using data from 2015, but data on trade in terms of value added are updated every five years and the index of participation in GVCs is based on data from 2011. However, because the process of increasing or reducing barriers in the services sector is quite lengthy, and also because a country's integration into GVCs is gradual as a rule, the difference in time periods of chosen indicators has no significant effect on the conclusions about the required dependencies.

The authors evaluated nine regressions of the form:

$$GVC\ Index_i = \alpha_{s,i} + \beta x_{s,i} + \varepsilon_{i,s},$$

Where GVC Index values participation of a country in GVCs (calculated as the sum of forward and backward linkages), $i \in [1; 44]$;

$x_{s,i}$ – the average values of the services restrictiveness index for a particular sector s in a country i , calculated for nine service sectors: transport, logistics, finance, telecommunications, distribution, construction, courier services, audiovisual, computer and professional services. Each of the nine regressions was evaluated based on 44 observations. It was found that the size of barriers in telecommunications, financial and courier services has an important impact on the country's participation in GVCs at a significance level of 5%, logistics and professional services at a significance level of 10%.

Then the coefficients of correlation between the country's participation index in the GVC and the values of statistically significant regressors were calculated. The results are shown in Table 1.

Table 1. Coefficients of Correlation between the Index of Participation in the GVC and the Services Restrictive Index by Sectors

	Index of Participation in the GVC
Financial services	–0.26
Telecommunications	–0.32
Courier services	–0.33
Logistics	–0.25
Professional Services	0.25

Source: Calculated by the authors.

Table 1 shows that barriers in all service sectors excluding professional services have a negative impact on the participation of countries in the GVC. The positive value of the coefficient of correlation for professional services may be a consequence of the overall level of restrictiveness in this industry due to the complexity of licensing the

activities of foreign service providers [Geloso Grosso, Gonzales, Miroudot et al., 2015, p. 12]. Indeed, the greatest number of differences in the legislation of the countries of the European Union, where the greatest success in the formation of a single market for services has been achieved, remains in the field of recognition of foreign professional diplomas. Thus, it can be concluded that there is an inverse relationship between the level of barriers to the infrastructure services and a country's participation in the GVC. Thus, liberalization of the service sector can become one of the factors for the successful integration of countries into the GVC. However, liberalization of trade in services requires considerable preliminary work to ensure that the process is effective.

BRICS Participation in Global Value Chains: Main Features

To determine the degree of participation, as well as the possibility of deepening the integration of the BRICS countries into the GVC through the liberalization of the services sector, we use the approach developed by the United Nations Conference on Trade and Development (UNCTAD). This approach is based on the assessment of the manufacturability of industrial exports (including both components and finished products) and the share of services in the total exports of countries.

To begin, it is worth describing the degree of involvement of the BRICS countries in global value chains using the index of participation in the GVC. The values of the index are shown in Table 2.

Table 2. Indices of Participation of the BRICS Countries in the GVC (2011, %)

	Forward Linkages	Backward Linkages	Index of Participation in GVCs	Ratio of Forward Linkages / Backward Linkages
Brazil	10.77	24.5	35.27	0.44
China	32.16	15.6	47.76	2.06
India	24.1	19.1	43.2	1.26
Russia	13.72	38.1	51.82	0.36
South Africa	19.47	26.5	45.97	0.73

Source: "OECD Trade in Value Added (TiVA)." www.stats.oecd.org (April 2017).

Concerning the nature of the country's participation in the GVC, the ratio of the share of foreign value added in national exports and the share of national value added in the export of third countries is indicative. For the BRICS countries, this indicator is greater than 1 for China and India, each of which uses significant amounts of imported components and intermediate services in the production of final goods and services.

To determine at which stages of the production GVC the BRICS countries create the greatest added value, we analyzed the structure of their exports and imports in terms of value added.

Of the BRICS countries China is most involved in the system of international production in absolute terms of value added. One-third of Chinese exports consists of the added value of imported intermediate goods and services. The most strongly foreign component is expressed in the cost of production of electronic industry and telecommunications equipment – the main article of Chinese exports – as well as electrical equipment. In addition, in the textile industry and trade – the second and third largest export sectors – the value added generated by China accounts for 95.9% and 73.5%, respectively [OECD and WTO, 2015b].

The services sector accounts for about 40% of total Chinese exports. At the same time, China is the only BRICS country in which the predominance of added value is created by services of foreign (17.8%) over local (13.3%) origin in total industrial exports. However, Chinese service providers are increasingly integrated into the GVC as evidenced by the gradual increase in the value added they create in services value chains [OECD and WTO, 2015b].

A distinctive feature of the Indian economy is that over the past 20 years it has set a record pace among BRICS countries for integration into the GVC – the share of foreign components in exports increased from 10% in 1995 to 24% in 2011. In many ways, such rapid growth can be explained by the country's specialization in services, which account for 57.5% of total Indian exports in terms of value added [OECD and WTO, 2015c]. The main export industries are trade, transport-warehouse services and products of oil refining. From the point of view of the country of origin that generates value added services in total exports, Indian intermediate service providers account for 47.8%, while foreign suppliers account for 9.7% [OECD and WTO, 2015c].

Of BRICS countries, Brazil has the largest share of the national value added in total exports (about 90%), although the export orientation of Brazilian industry is much lower than the average for the BRICS countries [OECD and WTO, 2015a]. Brazil's main export items are the products of the extractive and food industries, as well as trade. The national component of the added value of exports is created predominantly in the extractive industry and services (90%), while services account for one-third of the value added in industrial exports. The share of services of foreign suppliers is relatively small and amounts to about 10% in total exports [OECD, WTO, 2015a]. The main trading partner of Brazil is China; the share of Latin American countries in the geographical structure of Brazilian exports is relatively small and indicates the insufficient development of value chains in the region.

Russia's participation in the GVC is also characterized by the predominant share of the national value added in total exports due to the significant resource orientation of the economy. The main export items are products of the extractive (including oil) and metallurgical industries. The sectors most involved in international production are oil production and refining, ferrous and non-ferrous metallurgy, the chemical industry and machine building [Kadochnikov, 2015]. Services create 42.5% of the value of total exports, which is comparatively lower than the average in developed countries (54.3%). At the same time, foreign and national service providers account for 6.6% and 28.1% respectively [OECD, WTO 2015d].

South Africa, like Brazil and Russia, is involved in international production as a supplier of raw materials and intermediate products with a low degree of processing, while China and India are the main importers within the GVC. The share of services, mainly of national origin, accounts for 44.8% of the total value of exports [OECD, WTO 2015e (May 2017)].

Thus, the nature of the participation of the BRICS countries in GVCs is not uniform. Brazil, Russia and South Africa are involved in the GVC as suppliers of raw materials and intermediate goods, while China and India are active importers of foreign components and intermediate services for use in further production processes.

To appreciate the depth of integration of a country in the GVC, the length of production chains in which countries participate is indicative. From 1995 to 2009, China increased its participation in complex highly fragmented chains that resulted in involvement in more technological production chains and diversification of products. Contrary to this, the length of the GVC in which the rest of the BRICS countries were involved either remained the same or decreased slightly due to export specialization in a narrow range of industries which concentrated almost all the value added created in these countries.

Additionally, the structure of services exports of BRICS countries is very heterogeneous. According to the data on trade in the OECD in value added terms, China is the absolute leader in the export of services with a volume more than twice that of India. The lowest volume of services exports is observed in South Africa, where most of the value added is in trade, hotel services, restaurants and financial services. The main item of Russian services exports in addition to trade is transport and warehousing services, while its volume of exports of advanced computer technologies is the lowest among the BRICS countries. A similar situation is observed in the structure of Brazil's exports. As for the services involved in the production GVC, their distribution in terms of manufacturability is very different: the most technological structure is in China and India, with the least technological structure in Brazil, Russia and South Africa [UNCTAD, 2013]. Thus, Russia, Brazil and South Africa have a significant potential to expand their participation in production and services GVCs through the development of the services sector. As noted previously, barriers to services in the BRICS countries are much higher than in developed countries. Thus, the liberalization of trade in services could bring significant benefits, including improving the quality and level of manufacturability of exported services.

Specificity of Services Liberalization in the BRICS Countries

The volume of value added exported by the BRICS countries has increased over the past twenty years. China and India have demonstrated outstanding growth rates – their exports increased by six and five times respectively – while the value added exported by Russia, Brazil and South Africa grew more slowly.

One of the factors that led to the active integration of the Chinese and Indian economies into global value chains was the liberalization of particular service sectors

with the aim of boosting the efficiency of local service providers through increased competition in the domestic market.

In this respect, the most revealing example is the liberalization of the Indian service sector, completely closed until the 1980s and characterized by the dominance of state-owned companies and high-entry barriers for both foreign and local private firms. Since the 1990s numerous reforms have been carried out to liberalize the service sector under a comprehensive economic restructuring programme supported by the International Monetary Fund.

A particularly strong influence on India's participation in the GVC was the liberalization of telecommunications and transportation infrastructure services controlled by the state under a planned economy. Only two state-owned companies had the right to carry out air transportation and the shipping sector was practically closed to private firms; the state monopoly extended to the telecommunications sector as well [Matthias, Javorcik and Mattoo, 2016, p. 5]. However, insufficient resources meant the state was unable to improve the quality of services and the efficiency of the sector. This was the main reason for its liberalization in the early-1990s.

The main liberalization measures were privatization and facilitation of market-entry procedures for local firms, as well as the lifting of restrictions on the activities of foreign companies. The most profound liberalization occurred in the telecommunications sector, where all barriers were eliminated for both local and foreign service providers.

The reduction in prices for transport services and the improvement of transport infrastructure led to lower costs, a prerequisite for increasing the export potential of Indian enterprises. Thus, the liberalization of infrastructure services contributed to an annual increase in industrial output of 5.7% from 1993 to 2005 and to a large extent determined the integration of India into the production GVC.

In turn, the level of competition in the Indian market increased significantly, which led to an improvement in the quality of transport and telecommunications services and a reduction in prices. Another important consequence was the inflow of FDI indispensable for technological improvement of the industry. From 1992 to 2002 FDI in the services sector grew by 36% annually, outpacing the growth rate of investment in industry by 16% [Bas, 2014, p. 552]. At the same time, the largest volume of foreign investment was accounted for by the telecommunications sector. FDI also contributed to the development of technology-based services. The growth rate of the Indian information and communications technology (ICT) services sector is now among the highest in the world and the volume of export of ICT services is less only than China's [Biryukova and Matyukhina, 2016, p. 46].

The most attractive services sectors for foreign capital are finance and insurance, technical services and telecommunications, as well as services related to research and development. Outsourcing remains an important form of inclusion for India in global value chains.

Scientific and technological projects are a priority of Indian state policy. In recent years the state has been pursuing policy aimed at increasing the innovative activity of the private sector involving foreign capital. State and private organizations engaged in the

patenting and commercialization of innovations have been actively supported. Among such organizations are the Indian Technology Development Fund, the Indian Venture Capital Association, the National Venture Fund of for Software and Information Technology and others. [Galischeva, 2015]. An important element of India's innovation system is the network of technoparks to support the development of high-tech exports. Thus, the Indian government consistently pursues a policy of innovative development aimed at expanding the role of the corporate sector.

The beginning of services liberalization in China in the 1990s was associated with the beginning of negotiations on China's accession to the World Trade Organization (WTO). Nevertheless, regarding the existing political regime and state regulation of the economy, the scope of services liberalization in China is limited. However, there are examples of the positive impact of individual service sectors liberalization on their effectiveness. For example, in the telecommunications services sector foreign firms were permitted to enter the market through equity participation in state companies and a law banning monopolies in this sector was passed in 2002. [Bas and Causa, 2013, p. 846]. As a result of increased competition, China's telecommunications services sector began to grow at an impressive pace and today is the largest in the world.

Another example of the linkage between the quality of infrastructure services in a country and its participation in the GVC is the transport sector in China. The predominance of state-owned enterprises, low levels of competition and significant restrictions on the participation of foreign companies in the production of transport services have led to inefficiency in this service sector. There is a significantly uneven development of the transport system in the centre of the country compared to coastal regions, where most export-oriented enterprises are located. With the development of container transportation, the need for a railway network to deliver goods arriving by sea to the central regions has increased. However, due to congestion on railway lines, priority is given to large-tonnage transports carrying goods with lower value added [Hodge, 2002]. This has become a serious obstacle to China's integration within more lucrative GVCs.

The liberalization of the Chinese financial sector is of particular interest. In the 1990s only four commercial banks operated in the financial services market, and these were accountable to the People's Bank of China which dominated the sector. In the process of accession to the WTO, China has undertaken a limited number of commitments in relation to eight of the 12 financial services subsectors [WTO, Trade Policy Review, 2016]. These commitments include reducing entry barriers for private Chinese and foreign banks, increasing the transparency of the loan system and a number of other measures that facilitate the integration of the Chinese financial services market into the international market. However, these measures do not exclude state regulation of the financial services sector, which is still widely implemented. It is worth noting that developing countries are inclined to take on limited commitments within the WTO in the financial services sector. This is also true for India, where there are quantitative restrictions on the capital and affiliates of foreign financial companies. The services sector and trade were identified as a priority strategic direction in the 12th five-year plan (2011–2015). The Chinese government planned to spur the development of key

services sectors including finance, logistics, education and health. The goal of the government was to take a leading place among the largest exporters of transport, tourism, construction services as well as other subsectors of services for which comparative advantages were revealed. The plan envisaged joint work on the programme concerning foreign trade in goods and services, as well as enhancing technological and knowledge-intensive components of foreign trade.

As a result of the implementation of the five-year plan, growth rates in the Chinese service sector increased, but they were significantly lower than expected. To develop the enormous potential of the services sector it is necessary to strengthen the business sector, ensure workspace for a quickly growing workforce, facilitate terms of trade, accelerate the introduction of advanced management practices and improve overall economic efficiency.

The most vivid example of liberalization of infrastructure services in Brazil is rail transportation. In the 1990s the state railways of Brazil were privatized through concession agreements with private companies. As a result, the volume of rail traffic increased by 90% between 1996 and 2003 [Soliani, 2015, p. 257]. The increase in demand was largely due to the growth of the agricultural sector and the development of inter-modal transport. Presently, despite the considerable territory of the country, Brazilian railways are only tenth in the world, notably behind India, Russia and China. From 1997–2000, Brazil occupied the first place in income from transfer of property to the private sector; the privatization of Telebras was the largest privatization operation in Latin America and the third largest in the world. The most important result of the privatization policy was the qualitative improvement in the conditions of many services sector branches, primarily ICT. In Brazil, many firms of the services sector that initially attracted foreign investments have over time become exporters of services, thereby demonstrating the importance of “compatibility” and complementarities to increasing exports [Francois and Hoekman, 2010]. The experience of Brazil is an example of how trade in services through commercial presence (the third way of supply) can have a stimulating effect on cross-border trade (the first way of delivery). From 1990–2007, the average annual increase in exports of services to Brazil was 14% while the global growth was 9%. The subsequent internationalization of services, carried out mainly by new and small companies in the ICT sector, was caused by the growing demand from the companies of the first wave of internationalization for integrated software frameworks, data processing and storage, software development and the creation of network services. Thus, foreign direct investment has become a foundation for the subsequent expansion of export of services.

Significant liberalization of the infrastructure services sector in Russia is linked to the country’s ascension to the WTO in 2012. Russia took commitments in 116 services sectors. For example, in the banking system the overall foreign capital participation is limited to 50% (not including foreign capital invested in potentially privatized banks). Moreover, a nine-year transition period was established, after which foreign insurance companies will have an opportunity to open branches in Russia [Zuev, Birjukova, Meshkova et al., 2016]. A transition period was also established for the telecommuni-

cations services sector, which should meet the standards of the General Agreement on Trade in Services in four years. As for the commitments taken by Russia in the transport services sector, almost all of them comply with current legislation and therefore no fundamental changes in the regulation system for transport services were required. In 2014, several countries imposed sanctions against Russia that inevitably affected the investment flows of the country and its involvement in the GVC. The situation was further aggravated by the depreciation of the ruble and other macroeconomic factors. Sanctions resulted in restricted access to international financial markets for some Russian banks and companies which made external borrowing very expensive. Weak expectations held by national businesses and consumers regarding future growth reduced the total volume of investment, and massive export of capital made the currency market more volatile and accelerated the ruble's decline.

Share of the service sector shows a steady upward trend in the structure of accumulated direct investments. However, such growth is caused by the attractiveness of fast-paying and low-technology industries and trade primarily for foreign investors. At the same time, Russia has a relatively low volume of direct investment to science-intensive services and transport.

The domestic services sector requires active policy to attract investments with the aim of increasing competition in the local market, to attract financial resources and technologies and to improve the quality of services provided. At the same time, it is important to develop programmes to attract capital to more complex, knowledge-intensive sectors of the service sector. This, in our opinion, could be business services, financial services, information and communication or research and development, including through integration into value chains. The development of these types of services positively influences the welfare of end users, increases the efficiency of industrial production and ultimately improves the performance of the real sector of the economy.

The South African service sector is one of the most developed on the continent and is relatively open to the BRICS countries. Today, South Africa is the main provider of financial services in the region, as it has a comparative advantage over its less developed neighbours.

However, the liberalization of South Africa's services sector has faced difficulties caused by an imperfect institutional structure and the characteristics of the market system in the country. For example, budget policy priorities hampered privatization processes, while liberalization of the transport sector was postponed for several years due to the large debt of state transport enterprises [Hodge, 2002] which contributed to the slowed development of transport infrastructure in the country. In 2006, South Africa signed an agreement with the International Telecommunications Union according to which, by 1 June 2015, there was to be a transition from analogue to digital broadcasting. However, South Africa did not complete the transition until mid-2017, which prevented the creation of an infrastructure for broadband mobile networks for a new generation.

Although South Africa is relatively open to foreign direct investment, new projects, mergers and acquisitions are being tested for possible effects on employment and

local production. The private sector is considerably concerned about the expansion of the role of the state in this sphere. Significant restrictions on foreign investors have affected telecommunications. For example, in 2016, the Communications Regulator of South Africa decided that the foreign share of the broadcasting services sector should not exceed 20%. There is a requirement for a fixed national share in the subscriber services of satellite, cable and regular communications in television and radio broadcasting in South Africa.

Thus, after analysing the experience of the BRICS countries, it is possible to identify some features that are typical of the process of services liberalization in these countries. In general, the liberalization of infrastructure services has a significant and positive impact on the efficiency of both production and service sectors. Nevertheless, the BRICS countries continue to be much more closed than the developed ones for several reasons. First, the imperfect market system in developing countries can have negative consequences for the economic stability of the country when the service sector is liberalized. Second, local producers and service providers may be in a worse position due to competition from foreign companies. Third, the features of the political regime and national specifics play an important role. In many respects, it is the desire to protect its interests from the imbalances that arise between developed and developing countries as a result of the elimination of barriers to services which underlies the refusal of the BRICS countries to participate in the Agreement on Trade in Services initiated in 2012 by the United States within the WTO, intended to deepen multilateral liberalization of trade in services between the informal group of member countries of the organization [Biryukova, 2013].

Ways to Increase the BRICS Countries' Integration in GVCs

Having analysed the participation of BRICS countries in global production and service value chains and the possibilities and limitations of specific services sector liberalization, it is possible to identify key measures aimed at encouraging further integration of these economies into the GVC system.

BRICS countries face different challenges in the context of their participation in GVCs. China, the BRICS country most integrated into production and service value chains, is interested in enhancing value added by increasing the technological intensity of production stages and complexity of the GVC. The same purpose with respect to the service GVC is relevant for India. Being the second service provider after China, it can significantly increase the profitability of value chains through promoting the production of knowledge-intensive services such as professional and ICT services. At the same time, China and India each have significant resource potential in the form of highly skilled workforces and requisite financial resources. Thus, China is the largest FDI host country among developing countries (figures for 2015 amounted to \$136 trillion). India is also among the top twenty recipient countries with FDI of \$44 trillion [UNCTAD, World Investment Report 2013, p. 256].

Russia, Brazil and South Africa's interests at this stage mainly lie in export diversification and increasing backward participation, i.e., the share of foreign components in exports. This will help these countries to shift from a focused resource-based model to the production of components and final use products with higher value added and increased attractiveness to foreign investors.

Global value chains in today's global economy are based on foreign direct investment and the activities of transnational corporations (TNCs), which are now the key players in the world economy. Therefore, countries that seek to more actively integrate into GVCs need to adopt a consistent and competent policy regarding foreign capital. It is important to maintain a balance between potential benefits from solutions to national economic problems and possible threats of excessive vulnerability caused by uncontrolled access of foreign investors to the country's resources.

For the development of GVCs it is important to overcome the gap between suppliers and distance to the market. This can only be achieved by reducing transport costs and increasing the efficiency of operations in border areas as well as the development of information technologies [Klochko, 2017].

To actively participate in GVCs a country should have a well-developed logistics infrastructure, including a variety of sectors and subsectors (cargo handling, storage, warehousing, agency and related support services, freight transportation, air, rail, sea, express services and courier) and should consistently take action on trade facilitation (in the first place, to simplify customs and border procedures) [Biryukova, 2016, p. 122]. In turn, the development of GVCs in member states contributes to improving the quality of many services including ICT, transport, customs clearance procedures and inventory management systems.

This analysis of the service sector restrictiveness index for the BRICS countries has shown that the liberalization of services, and the infrastructure services sector in particular, might become one of the most effective tools for integration into the GVC. As services are an integral part of both production and service GVCs and enable their functioning, the quality and cost of transport, telecommunications and financial services depend on the efficiency of the entire chain and the size of the value added by a particular firm or the entire economy. Moreover, in the face of declining tariffs for trade in goods, an efficient services sector has become a crucial factor determining the competitiveness of the national economy. Participation in complex service global value chains increases the efficiency of the entire service sector in a country and, therefore, encourages investments and the creation of necessary infrastructure for further integration into the production GVC.

However, it is important to mention that service liberalization itself could have a limited impact on the BRICS countries' integration into GVCs. The reason is that investment decisions are made by foreign companies on the basis of the overall attractiveness of the economy. Thus, without necessary infrastructure, effective state regulation and well-functioning financial and legal systems, significant expansion and deepening of the country's participation in the GVC is highly unlikely. That is why the ways of in-

creasing a country's involvement in GVCs should include a set of trade and investment policy tools, intellectual property protection measures and reforms aimed at improving the functioning of state institutions.

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Влияние либерализации сферы услуг на участие стран БРИКС в глобальных цепочках добавленной стоимости¹

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Статья посвящена исследованию характера и степени влияния либерализации сферы услуг на участие стран БРИКС в глобальных цепочках стоимости (ГЦС).

В статье при помощи методов эконометрического анализа была определена обратная взаимосвязь между величиной барьеров в инфраструктурных отраслях услуг и степенью участия стран в глобальных цепочках создания стоимости.

С помощью данных о структуре торговли товарами и услугами в терминах добавленной стоимости было проанализировано положение развивающихся стран на примере стран БРИКС в производственных и сервисных ГЦС. Так, Китай и Индия являются странами, наиболее глубоко вовлеченными в международные производственные и сервисные цепочки. Несмотря на то что Россия, Бразилия и Южная Африка включены в производственные цепочки стоимости в большей степени как поставщики сырья и промежуточных товаров с низкой добавленной стоимостью, эти страны обладают значительным потенциалом расширения своего участия в системе международного производства, в частности, посредством улучшения инфраструктуры, необходимой для функционирования ГЦС.

На основе изучения опыта либерализации отдельных секторов услуг в странах БРИКС было выявлено положительное влияние снижения барьеров в сфере морских, железнодорожных и авиаперевозок, а также финансов на улучшение качества и снижение стоимости предоставляемых услуг. Авторы отмечают, что во многом подобные эффекты стали результатом не только снижения барьеров в сфере услуг, но и реализации комплекса мер, направленных на повышение инвестиционной привлекательности стран. В статье сделан вывод, что либерализация инфраструктурных отраслей услуг может стать одним из инструментов интеграции стран БРИКС в ГЦС. Вместе с тем эта либерализация должна являться элементом более широкой стратегии развития, включающей меры торговой и инвестиционной политики, направленные не только на расширение участия в глобальном производстве, но и общее экономическое развитие страны.

Ключевые слова: глобальные цепочки стоимости; добавленная стоимость; сектор услуг; БРИКС; либерализация

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Indonesia and the BRICS: Implementing the BEPS Action Plan¹

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Abstract

Tax base erosion and profit shifting (BEPS) is a global problem. Finding solutions is a challenge for most countries. The global economic crisis led to a new environment and requirements for doing business. These requirements have been developed by two key international institutions: the Organisation for Economic Co-operation and Development (OECD) and the Group of 20 (G20). This approach has engaged the developed and developing countries that are members of these institutions, as well as a significant number of partner countries. As a result, more than 100 countries have confirmed their commitment to the BEPS Action Plan.

This article assesses the level of implementation of the BEPS Plan in Indonesia and in the BRICS countries of Brazil, Russia, India, China and South Africa. The author monitored their activities for 13 of the 15 actions (excluding Actions 11 and 15) and identifies several best practices that can be used by Russia.

Monitoring considered implemented and planned actions, primarily amendments to and new norms in relevant national legislation, as well as the expected implementation time for all BEPS actions. In addition, the author assessed institutional environments created to implement the provisions of the Action Plan, consultation processes and mechanisms for informing stakeholders.

Analysis shows that approaches to implementing the BEPS Action Plan differ among the six countries. Although several lag behind in terms of their implementation schedule, each country has demonstrated some efforts that can be considered best practices. Russia has succeeded the most in implementing the Action Plan.

Key words: BEPS; Taxation; Profit shifting; Tax avoidance; BRICS; Indonesia; Multinational corporations; Transfer pricing

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Introduction. Overview of the BEPS Action Plan Activities and Approaches to Implementation Assessment

Tax base erosion and profit shifting (BEPS) is a global problem posing a challenge for most countries of the world. The global economic crisis stimulated the development of new requirements for doing business by key international institutions. These two factors predetermined the need to combine the efforts of two institutions – the Organisation for Economic Co-operation and Development (OECD) and the Group of 20 (G20) – to find effective solutions to address BEPS. This approach has made possible the engagement of both developed and developing countries through their membership in these institutions, as well as a large number of partner countries. As a result, more than 100 countries have confirmed their commitment to anti-BEPS measures [Shelepov, 2016].

The main outcome document of the OECD/G20 project is the BEPS Action Plan. 15 actions defined within the Plan provide for the implementation of a set of measures that allow member countries to combat tax base erosion and profit shifting. Implementation of these measures requires careful consideration, as hasty and excessive tightening of requirements can lead to negative consequences for business environments in respective countries. Taking into account the voluntary implementation of measures to address BEPS by non-OECD members, including Russia, the experience of countries that are not OECD members but which closely cooperate with the Organisation is of particular interest. Among them, BRICS and Indonesia should especially be considered.

On 5 October 2015, following the results of the work by the G20 and the OECD, 13 final reports and comments were published, reflecting the consensus reached on the BEPS Action Plan. Further actions in each of these areas should form a comprehensive and coordinated approach to addressing the BEPS problem. The 15 actions of the BEPS Plan differ in terms of the coherence of the specific measures aimed at preventing tax base erosion. Actions provide for (in order of descending consensus between countries) the introduction of “minimum standards” to be implemented through changes in relevant national legislation, the development of guidelines on general policy directions (“common approaches”) while providing for a certain flexibility at the national level and the identification of “best practices” with recommendations for their implementation at the national level. In some countries participating in the BEPS project the implementation of measures in accordance with identified best practices is not mandatory [Deloitte, 2015b]. In addition, some actions of the BEPS Plan provide for modification of existing OECD approaches previously approved by countries or the creation of new instruments, so that it is not presently required that specific measures are implemented at the national level [Shelepov, 2016].

With the improvement of the BEPS package by the OECD and the growing consensus among participating countries, some “common approaches” have been transformed into “minimum requirements,” and “best practices” have become “common

approaches.” The various approaches to the implementation of BEPS actions at the country level is illustrated in Table 1.

Table 1. BEPS Actions and Approaches to Their Implementation at the Country Level

BEPS Actions	Category
1. Digital economy	Common approach, characterized by the OECD as an action for further consideration [OECD, 2015c]
2. Hybrid mismatch arrangements	Common approach
3. Controlled foreign companies	Best practice
4. Interest deductions	Common approach
5. Harmful tax practices	Minimum standard
6. Tax treaty abuse	Minimum standard
7. Permanent establishment status	Changes to the OECD Model Tax Convention
8–10. Transfer pricing	Changes to the OECD Transfer Pricing Guidelines
11. Measuring and monitoring BEPS	Does not provide for action at the country level
12. Aggressive tax planning disclosure	Best practice
13. Transfer pricing documentation	Common approach (transfer pricing documentation) and minimum standard (country-by-country reporting)
14. Dispute resolution	Minimum standard
15. Multilateral instrument	Does not provide for action at the country level, except signing the instrument following its development

Source: Elaborated by the author based on [DLA Piper, 2015; Deloitte, 2017b].

Some experts, taking account of the ongoing development of specific proposals for the implementation of BEPS actions, put the same actions into different categories. For example, Deloitte analysts consider the collection of value added tax (VAT) on digital services within Action 1 to be a “common approach” while also describing it as an “action for further work.” Action 13 is characterized as a combination of a “minimum standard” and a “common approach” [Deloitte, 2017b].

The main purpose of this article is to assess the level of implementation of the BEPS Plan in the BRICS countries and Indonesia after monitoring their activities, primarily with regard to the adoption of relevant national legislation, as well as the identification of best practices that can be considered by Russian tax authorities. It is important to note the relevance of anti-BEPS proposals for Russia, given the general policy of deoffshorization of the Russian economy. At the same time, according to some experts, “it seems impossible to copy the proposals on BEPS, because there is a number of very specific problems in Russia that need to be addressed. These include, in particular, thin capitalization rules that deal with a fixed ratio, transfer pricing rules with a focus on domestic transactions and vague rules for controlling prices between

non-interdependent entities, the problem of interpreting the provisions of agreements on avoidance of double taxation, double VAT taxation when importing goods through a commissioner, etc.” [Milogolov, 2016]. This explains the importance of considering the experience of other states in implementing the provisions of the BEPS Plan, taking into account their national circumstances.

Monitoring is carried out for 13 of the 15 actions, excluding Action 11 which does not involve any country actions, and Action 15 which provides for the development of the OECD Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS, signed by all countries considered except Brazil. Its ratification process is still underway and the final scope of changes in national tax regimes is unclear.

Monitoring considered implemented and planned actions taken by the BRICS countries and Indonesia, primarily amendments to and new norms in relevant national legislation, as well as the expected implementation time, if available, for all BEPS actions. In addition, institutional environments created to implement the provisions of the Action Plan, consultation processes and mechanisms for informing stakeholders were assessed.

Assessment of the implementation level was performed using a three-point scale. A score of –1 indicates no action or little progress. A score of 0 indicates continuing work on the action or the use of approaches different from those recommended by the OECD. A score of +1 means complete or almost complete implementation of national reforms in accordance with OECD recommendations to date or expected full implementation in the near future.

Changes in Legislation and Other Actions Aimed at Implementing the BEPS Plan

Brazil

Despite the fact that Brazil participated in the discussions on the BEPS Project within the framework of G20 and OECD mechanisms, representatives of the country’s tax authorities have not publicly announced implementation of any specific measures to combat tax base erosion. Priorities of Brazil’s fiscal policy include covering the state budget deficit, as well as weakening tax competition between individual states of the country that introduce tax incentives to attract investment. Some experts believe that fiscal policy measures recently implemented in Brazil have been aimed primarily at addressing these problems, although often their implementation is formally in line with some recommendations of the BEPS Plan [Deloitte, 2017a].

As a result, the Brazilian corporate sector remains poorly informed about combating tax base erosion because of the absence of specific reform plans announced by tax authorities and an increased focus on other national tax system reforms that are not directly related to BEPS issues.

At the same time, some aspects subsequently included in the BEPS Plan's requirements and recommendations had already been reflected in the national legislation of Brazil before the publication of the Plan. This refers primarily to the regulation of controlled foreign companies, limiting interest deductions and harmful tax practices [Deloitte, 2017a]. Thus, Law No. 12973/2014 introduced rules for controlled and affiliated companies in Brazil applicable to directly and indirectly controlled companies. Any investment in a controlled foreign company must be adjusted annually to reflect the change in the investment value that corresponds to profits or losses of the company. In this case, the change in investment must be recognized in proportion to the Brazilian parent's participation in the company's equity. Any adjustment relating to profits earned, calculated according to the local accounting standards of the jurisdiction of the controlled entity, are subject to the Corporate Income Tax (IRPJ) and Social Contribution on Net Profits (CSLL) annually.²

Taxpayers will be allowed to consolidate positive and negative adjustments until 2022 if they satisfy certain conditions as defined by the legislation. A company cannot consolidate positive and negative adjustments if it is subject to a tax regime with a nominal income tax rate of less than 20% or it is a resident in a tax haven (or is controlled directly or indirectly by tax haven residents). If the taxpayer decides not to consolidate its tax losses, they will only be compensated by the foreign controlled entity with its own future profits. Accumulated losses can be used to compensate for profits without any time limits, provided that disclosure rules are followed. This approach formally implements OECD recommendations on controlled foreign companies and limits the potential negative impact on compliant businesses.

Thin capitalization rules in Brazil ensure that interest paid by a Brazilian entity to a related party (individual or legal entity) resident in a foreign country, but not in a tax haven or a jurisdiction with a privileged tax regime, may be deducted for income tax purposes if the interest expense is considered necessary for the activities of the local entity, and if several quantitative requirements limiting the size of the deduction are met.³ Such an approach is also balanced in terms of the interests of the state and business.

In accordance with OECD recommendations Brazilian legislation was amended to restrict harmful tax practices. Normative Ruling No. 1658, which entered into force on 15 September 2016, deals with the substantive economic activity of holding companies in jurisdictions from the Brazilian "grey list" of privileged tax regimes. Normative Ruling No. 1634, which entered into force on 9 May 2016, introduced new requirements for disclosing information in the Brazilian corporate taxpayer register (CNPJ). The main requirement relates to identifying the entire chain of owners, as well as their legal representatives, including final beneficiaries, especially in cases involving foreign companies. Normative Ruling No. 1689 of 21 February 2017 contains guidelines on measures related to Action 5 of the BEPS Plan, including an explanation of the need

² PWC (2017) "Brazil: Corporate-Group Taxation." Available at: <http://taxsummaries.pwc.com/ID/Brazil-Corporate-Group-taxation> (accessed 04.07.2017).

³ Ibid.

for and procedures governing information exchange between tax authorities. The ruling also provides for the use of a dispute settlement mechanism in the framework of Brazil's tax agreements, which is in line with the recommendations of BEPS Action 14 [Deloitte, 2017a].

However, the prospects for further integration of BEPS provisions into national legislation are not yet clear. In July 2015, a draft bill requiring disclosure of information on aggressive tax planning was proposed [Deloitte, 2015a], but it was rejected by the congress in November that year. According to some experts, the rejection of these proposals can be explained by their vague wording, leading to additional uncertainty for the business community about the consequences of implementing anti-BEPS rules.⁴ There is no information about further legislative initiatives in this area. The situation is also complicated by the continuing political crisis in Brazil.

As a result, despite the formal participation of Brazil in the development of the BEPS Plan, the scope and the pace of ongoing integration of new standards into national legislation is not clear; this is related to low levels of awareness of the proposed changes within the country and the cautious attitude of business toward them. The Department of Federal Revenue has expressed its support for the BEPS Action Plan, considering some measures as having the potential to improve the national business climate.⁵ However, informal sources indicate that Brazilian authorities intend to analyze the consequences of implementing anti-BEPS measures in other countries before taking additional actions at the national level [Deloitte, 2017a].

Thus, only some amendments have been made in Brazilian legislation that are in line with OECD recommendations regarding the BEPS Plan. They include measures provided for in Actions 3 (controlled foreign companies), 4 (interest deduction), 5 (harmful tax practices) and 14 (tax dispute resolution). On some actions, including Actions 2 (hybrid arrangements) and 12 (aggressive tax planning) the adoption of relevant legislation was blocked by the congress. Regarding Actions 8–10 and 13, dealing with transfer pricing and related documentation, Brazilian legislation differs significantly from the OECD recommendations. For Actions 1 (digital economy), 6 (tax treaty abuse) and 7 (permanent establishment status) no information is currently available.

India

Indian authorities fully support legislative changes to fight BEPS proposed by the OECD. According to the representative of the country's main tax authority, the Department of Revenue of the Ministry of Finance, "BEPS is a reality. The report pre-

⁴ International Tax Review (2015) "Brazil: Update on the Obligation to Disclose Certain Transactions in Brazil." Available at: <http://www.internationaltaxreview.com/Article/3514732/Brazil-Update-on-the-obligation-to-disclose-certain-transactions-in-Brazil.html> (accessed 04.07.2017).

⁵ Department of Federal Revenue of Brazil (2015) "Informar Operações Atípicas e Relevantes à Administração Tributária: Um Direito do Contribuinte." Available at: <http://idg.receita.fazenda.gov.br/sobre/consultas-publicas-e-editoriais/editorial/informar-operacoes-atipicas-e-relevantes-a-administracao-tributaria-um-direito-do-contribuinte> (accessed 04.07.2017).

sents a consensus among G20 nations. We will now start examining the report, and see when and how we can start bringing in the measures.”⁶

In some cases, even if there are currently no relevant norms in Indian legislation, the country’s specialized authorities use the provisions of the BEPS Plan in their practice. At the same time, Indian legislation contains norms that do not fully comply with the recommendations on BEPS. This approach is explained by the need to account for national circumstances.⁷ As in many other countries, the Indian tax authorities believe that implementation of the provisions of the BEPS Plan should be aimed at maintaining a balance between combating tax base erosion and supporting business activity.⁸

Integration within the national legislation of India of some provisions that were subsequently included in the BEPS Plan started alongside the growing interest of the OECD and the G20 in BEPS issues. For instance, the Finance Act 2013, a key national document in the financial sphere, provided for the introduction of a general anti-avoidance rule (GAAR) as of 1 April 2015⁹ which is in line with Action 6 of the BEPS Plan. However, the implementation of this provision was postponed for two years so that it could be synchronized with other actions [Deloitte, 2017c].

The Finance Act 2016, approved and published in May 2016, provides for rules aimed at combating tax base erosion which were adopted following the publication of the OECD BEPS Action Plan. These rules deal with the taxation of transactions involving digital services (Action 1), introduction of the “patent box” regime (Action 5) and transfer pricing documentation and country-by-country reporting (Action 13) [CBEC, 2016]. When the recommendations were integrated into India’s national legislation tax authorities informed stakeholders about the changes, resulting in a relatively high level of business awareness about the BEPS Project in India [Deloitte, 2017c].

As noted above, OECD recommendations in India are often implemented in practice, but not legislated. This refers, for example, to Actions 8–10. However, the country’s authorities are expected to make significant changes in transfer pricing regulations on 1 April 2018.¹⁰ According to these new regulations, taxpayers who are parties to a cross-border transaction will in certain cases have to make a so-called secondary adjustment. Secondary adjustments are aimed at reflecting actual allocations of profits between taxpayers and their associated enterprises. The purpose of a secondary adjustment is to eliminate the imbalance between the taxpayer’s accounts and actual profits. Excess profits (differences between market prices in a transaction between independent parties and actual profits) shall be considered to be advances made by taxpayers to

⁶ “The BEPS Effect: Is India Ready?” *Business Standard* (2015) Available at: http://www.business-standard.com/article/opinion/the-beps-effect-is-india-ready-115101800760_1.html (accessed 04.07.2017).

⁷ EY (2016) “OECD BEPS Reports: An Indian Perspective.” Available at: <http://www.ey.com/IN/en/Newsroom/News-releases/EY-oecd-beps-reports-an-indian-perspective> (July 2017).

⁸ “The BEPS Effect: Is India Ready?” *Business Standard* (2015) Available at: http://www.business-standard.com/article/opinion/the-beps-effect-is-india-ready-115101800760_1.html (accessed 04.07.2017).

⁹ “Finance Act 2013.” *Tax India* (2016) Available at: http://www.taxindiaonline.com/RC2/union_budget/finance_act/finance_act_13/ (accessed 04.07.2017).

¹⁰ “India: India Budget Analysis 2017–18.” *Mondaq* (2017) Available at: <http://www.mondaq.com/india/x/567978/withholding+tax/India+Budget+Analysis+201718> (accessed 04.07.2017).

their associated enterprises if they are not repatriated to India within a prescribed time. Interest on excessive profits are also be payable until obligations to repatriate them are discharged. Although the secondary adjustment is an internationally recognized concept in line with the OECD's transfer pricing guidelines, implementation of the new rules may result in certain difficulties. For example, foreign countries in which associated enterprises are located may have exchange control provisions that make it difficult to repatriate excess profits to India.

Thus, although India has not taken any concrete actions in accordance with some actions of the BEPS Plan, including hybrid arrangements (Action 2), controlled foreign companies (Action 3), interest deductions (Action 4), permanent establishment status (Action 7) and aggressive tax planning (Action 12), India generally seeks to introduce changes to its national legislation to comply with the OECD recommendations and is discussing potential amendments. In particular, India agrees to cooperate on the exchange of tax information by providing competent tax authorities in other countries with access to information about Indian tax residents (Action 13). In addition, some provisions, such as the general anti-avoidance rule (GAAR) (Action 6) were in force in India even before the BEPS Action Plan was adopted. Some progress was also made in relation to Actions 1, 5 and 8–10. The only exception is Action 14, which is considered to be irrelevant given the existence of other effective dispute resolution mechanisms and moreover is seen as threatening India's sovereignty [PWC, 2016a].

China

Days after the publication of the final BEPS Action Plan, the State Administration of Taxation (SAT) of China organized a conference to discuss the country's position regarding the BEPS Project and concrete steps to integrate measures to address tax base erosion and profit shifting into the national legislation.

It should be noted that by the time of the adoption of the BEPS Action Plan, China had already developed legislation in line with OECD recommendations in some areas, including transfer pricing and controlled foreign companies. For example, in accordance with the rules on controlled foreign companies, retained earnings of a controlled foreign company in a jurisdiction with a low tax rate (less than 12.5%) may be taxed because they are considered to be a potential distribution of profits to shareholders. Chinese tax authorities have published a list of countries ("white list") which they do not consider to be jurisdictions with low tax rates for the purpose of this law.¹¹ Close attention of the tax administration to BEPS coupled with successful implementation of some tax regulations before the publication of the BEPS Action Plan allowed China to integrate other provisions of the Plan into its national legislation in a relatively short time. At the same time, the SAT initially aimed to create a stable and transparent tax environment, while ensuring that China receives a "fair share of profits" gained from

¹¹ PWC (2017) "China: Corporate-Group Taxation." Available at: <http://taxsummaries.pwc.com/ID/Peoples-Republic-of-China-Corporate-Group-taxation> (accessed 04.07.2017).

implementing initiatives to combat BEPS [Deloitte, 2017b]. According to the SAT, the existing practices of Chinese tax authorities meet the requirements of Action 6 and the recommendations of Action 7. Regarding transfer pricing, relevant amendments have been made (Circular 2), taking into account national circumstances, i.e., OECD recommendations were adapted as appropriate for China [Deloitte, 2017b]. Recommendations for Action 13 have been incorporated into China's national legislation based on the same approach. On 29 June 2016, the SAT issued a new rule (Bulletin 42), replacing the provisions of Circular 2 relating to transfer pricing in terms of information disclosure and documentation. There is a three-level documentation framework, including a master file, a local file and a special issue file. It is required that the local file contains a quantitative and qualitative value chain analysis. In addition, the parent company of a multinational enterprise is required to submit a country-by-country (CbC) report along with its annual reporting on the corporate income tax. China is also a signatory of the Multilateral Competent Authority Agreement for the Automatic Exchange of CbC Reports [Deloitte, 2017b].

Thus, implementation of the BEPS Action Plan provisions in China considers the national context and aims to maintain a balance between combating tax avoidance and ensuring that the interests of businesses, and primarily Chinese companies working abroad, are satisfied. For example, the corporate income tax (CIT) law (Action 4) includes a thin capitalization rule that prohibits interest expenses arising from related-party loans. In "tax havens," the debt to equity ratio for enterprises in the financial industry is 5:1 and for enterprises of other industries it is 2:1. However, if there is substantial evidence that the financing arrangement meets the arm's length principle, these interests can be fully deductible from the tax base, even if these ratios are exceeded.¹² Work to review the existing norms and integrate the provisions of the BEPS Plan into national legislation is carried out not only within the existing tax administration framework, but also by a department of international taxation specially created within the SAT. It is important to note that activities of state bodies aimed at combating BEPS are widely covered in media [Deloitte, 2017b].

Actions are planned in accordance with a number of other BEPS Plan recommendations. In particular, the existing regimes are reviewed for compliance with the requirements of Action 5 and reviewing the law on tax administration and collection in line with Action 12 is discussed [Deloitte, 2017g].

At present, in relation to some actions of the BEPS Plan, including Actions 1 (digital economy) and 2 (hybrid arrangements), Chinese tax authorities have not taken any measures. For others, relevant provisions were already in place or were promptly adopted as with Actions 3 (controlled foreign companies), 4 (interest deduction), 6 (treaty abuse), 7 (permanent establishment status) and 8–10 (transfer pricing). For still others including Actions 5 (harmful tax practices), 12 (aggressive tax planning), 13 (transfer pricing documentation) and 14 (dispute resolution), legislative changes are expected in the near future.

¹² PWC (2017) "China: Corporate-Group Taxation." Available at: <http://taxsummaries.pwc.com/ID/Peoples-Republic-of-China-Corporate-Group-taxation> (accessed 04.07.2017).

South Africa

South African authorities pay considerable attention to the BEPS Project. The country's top-level officials, representatives of leading political parties and the South African Revenue Service (SARS) regularly declare the importance of fighting BEPS for the country. Against this background, in 2013 a special Davis Tax Committee was tasked with the comprehensive assessment and development of recommendations on reforming the country's tax system, taking account of the measures proposed by the OECD to address BEPS.

Following the publication of materials on individual actions of the BEPS Plan, the Davis Tax Committee presents authorities' recommendations for reforming and harmonizing the national legislation to the South African government. The mechanism of public consultations is actively used, aimed at analyzing the positions of all stakeholders and especially the business community [Davis Tax Committee, 2015].

As in most other countries considered in this analysis, according to South African authorities the implementation of the BEPS Action Plan should be based on a balanced approach. Confirming this point of view, experts from the Davis Tax Committee noted that "if South Africa wants to remain competitive in a globalized economy, it must adhere to a balanced tax policy that ensures the inflow of foreign direct investment. It should not hurry with the implementation of the BEPS Plan, given that other countries can take a wait-and-see position, providing legislative preferences for investors and preserving their competitiveness."¹³

South Africa's legislation already includes rules dealing with certain aspects of BEPS. They primarily focus on controlled foreign companies, transfer pricing and relevant information disclosure, use of hybrid arrangements, and exchange control rules for certain types of payments. The Davis Tax Committee representatives believe that the South African Revenue Service should continue its work to incorporate OECD recommendations into national legislation. Concrete proposals by the Committee in this regard were published as a report in late-2016,¹⁴ supplementing recommendations on seven actions of the BEPS Plan announced earlier [Davis Tax Committee, 2015].

Work in accordance with the recommendations of the Davis Tax Committee has already started. In April 2016, the South African Revenue Service published a draft resolution on the introduction of mandatory CbC reporting for transnational enterprises in line with Action 13 of the BEPS Plan [South African Revenue Service, 2016b]. At the same time, probably to minimize potential negative consequences of the new requirements, the Revenue Service has changed its initial plans to introduce more stringent reporting rules than those required by the OECD [Deloitte, 2017f]. In July 2016, draft

¹³ Baker Tilly International (2015) "South Africa Launches Consultation on BEPS Response." Available at: <http://www.bakertillyinternational.com/web/insights/international-tax-insight-august-2015/south-africa-launches-consultation-on-beps-response.aspx> (accessed 04.07.2017).

¹⁴ Davis Tax Committee (2017) "What's New." <http://www.taxcom.org.za/index.html> (accessed 04.07.2017).

requirements for transfer pricing documentation were announced [South African Revenue Service, 2016a].

In the framework of the budget review on 22 February 2017, South Africa's minister of finance set out the position on the BEPS Plan.¹⁵ Regarding Action 1, foreign companies that supply digital services to South Africa are already required to register for VAT withholding. Currently, these regulations are under additional review. South Africa is a member of the Task Force for the Digital Economy which examines issues related to direct taxation. Regarding hybrid mismatches, the South African legal system provides for measures to limit double deduction of interest payments from taxable income, as well as income exclusions in cases where there were no corresponding deductions and vice versa. Additional initiatives are likely to be considered in future. South African rules on controlled foreign companies have been acknowledged internationally and were recommended by the OECD as one of the three best options for implementation in other countries. The South African government is attempting to limit excessive debt financing and erosion of the tax base, and is going to review the existing limitation in line with OECD recommendations on Action 4. South Africa participates in the Forum on Harmful Tax Practices¹⁶ and has recently completed a review of its preferential tax regimes in order to align them with those of the OECD countries. However, there are concerns that the "headquarter company" tax regime used in South Africa could constitute a harmful tax practice [Deloitte, 2017f]. Regarding Action 6, the principle purpose test is applied, which largely corresponds to national measures aimed at combating tax treaty abuse. In accordance with this method, benefits are considered to be illegal if it is reasonable to conclude that obtaining them was one of the principal purposes when entering into any arrangement or transaction.

No concrete actions have been taken on Action 7. However, in future negotiations on tax treaties South Africa will take account of the recommendations concerning fragmentation of business activities and avoidance of permanent establishment status through exemptions of certain types of activities from taxation. The goal will be to prevent companies from artificially avoiding permanent establishment status by breaking up large business processes into several smaller operations. In addition, the South African Revenue Service is updating the transfer pricing requirements in line with OECD guidelines based on the arms' length principle and an agreed approach to ensure appropriate pricing of intangible assets that are difficult to value. The Tax Administration Act¹⁷ contains rules for disclosing aggressive tax practices that were used as a benchmark in the final OECD report on BEPS Action 12. The Act also serves as a legal basis

¹⁵ EY (2017) "South Africa Sets Forth Position on OECD BEPS Action Plan." Available at: <http://ey.com/gl/en/services/tax/international-tax/alert--south-africa-sets-forth-position-on-oecd-beps-action-plan> (accessed 04.07.2017).

¹⁶ "South Africa Publishes 2017 Budget Review, Includes Position on BEPS Action Items." *Thomson Reuters* (2017) Available at: <https://tax.thomsonreuters.com/blog/checkpoint/southafrica-publishes-2017-budget-review-includes-position-on-beps-action-plan> (accessed 04.07.2017).

¹⁷ South African Government (2011) "Tax Administration Act 28 of 2011." Available at: <http://www.gov.za/documents/tax-administration-act> (accessed 04.07.2017).

for CbC reporting and includes the term “international tax standard” to refer to such reporting. The new provisions were published in December 2016, and the first reports should be submitted to the State Revenue Service by 31 December 2017 for fiscal years starting on or after 1 January 2016.¹⁸ As for Action 14, the South African finance minister emphasized that, like many other developing countries that are members of the G20 or OECD, South Africa has not committed to mandatory arbitration to resolve tax disputes. Nevertheless, the model tax treaty will be updated in the future to incorporate the relevant minimum standards.

Despite obvious progress in integrating the provisions of the BEPS Plan into South Africa’s national legislation, businesses, especially international corporations operating in the country, are concerned about unjustified tightening of tax rules, as well as the complexities and contradictions of existing and proposed norms which make compliance difficult. South African authorities have not yet announced any plans to address this problem.

It is important to note that even before the adoption of the BEPS Plan, national legislation was adopted in South Africa that was in line with several actions, particularly those on hybrid mismatch arrangements, interest deductions, transfer pricing and tax treaty abuse. The OECD recognizes some of the existing rules, for example, regulations on controlled foreign companies, as best practices. However, some of the measures currently in place are too complex and unclear and need further consideration. Other rules do not fully cover all OECD recommendations for certain actions. In addition, measures to address harmful tax practices are considered by the OECD as potentially leading to tax base erosion.

Indonesia

The first Asia-Pacific technical meeting on BEPS in November 2015 was an important stimulus of Indonesia’s participation in the development, implementation and monitoring of measures to address BEPS. Representatives of 17 countries and a number of international organizations took part in the meeting organized by the Ministry of Finance of Indonesia. The deputy minister confirmed Indonesia’s support for the BEPS Project as an important item on the G20 agenda and called for strengthening cooperation between developed and developing countries to combat tax base erosion.¹⁹

Before the BEPS Action Plan was agreed, a number of provisions in Indonesia’s legislation considered BEPS issues. In particular, the national tax authorities adopted regulations for controlled foreign companies, requirements for disclosing transactions involving “tax havens,” rules for disclosing transfer pricing information and procedures to encourage tax authorities to exchange information with foreign counterparts, as well

¹⁸ EY (2017) “South Africa Sets Forth Position on OECD BEPS Action Plan.” Available at: <http://ey.com/gl/en/services/tax/international-tax/alert--south-africa-sets-forth-position-on-oecd-beps-action-plan> (accessed 04.07.2017).

¹⁹ OECD (2015) “OECD Holds a Regional Consultation on BEPS for Asia-Pacific in Indonesia.” Available at: <http://www.oecd.org/ctp/oecd-holds-first-asia-pacific-technical-meeting-on-beps-in-indonesia.htm> (accessed 04.07.2017).

as mechanisms to combat tax treaties abuse. At the same time, the tax authorities have formally associated none of these changes in Indonesian tax laws with the implementation of BEPS Plan recommendations. The only exceptions were measures in relation to Action 13. The Ministry of Finance of Indonesia introduced requirements for three-tiered documentation for taxpayers. They are in line with OECD recommendations and include additional requirements for information in the master file and the local file. In particular, the documents must be prepared in Bahasa and made available within four months of the end of the tax year. Thresholds were also established to determine documentation requirements and the inclusion of domestic related parties in the scope of the transfer pricing rules. Indonesian taxpayers must provide a local file and a master file if they are involved in transactions with related parties and have annual gross profits exceeding IDR50 billion, if the volume of such transactions is above IDR20 billion, or if related parties are located in jurisdictions where the corporate tax rate is lower than in Indonesia, i.e., is below 25% [Deloitte, 2017d].

The tax authorities have introduced rules for CbC reporting in line with OECD recommendations, with some additional details. Reports must be made available within 12 months from the end of the fiscal year. A detailed manual on the procedure for filing these reports should be published. Indonesia signed the multilateral competent authority agreement on the exchange of CbC reports.

Still, the prospects for further implementation of the provisions of the BEPS Action Plan in Indonesia are quite favourable. The main tax authority of the country, the General Directorate of Taxes (DGT) of the Ministry of Finance, fully supports measures to combat BEPS. Particular attention is paid to the exchange of information with foreign tax authorities. On 1 May 2015, the Convention on Mutual Administrative Assistance in Tax Matters entered into force for Indonesia, creating additional possibilities for cooperation for the national tax authorities.²⁰ According to some sources, a general anti-avoidance rule (GAAR) is likely to be adopted in Indonesia. In addition, the DGT has been working to raise business awareness about BEPS and proposed measures to address tax base erosion [Deloitte, 2017d]. Despite the absence of clear norms, Indonesian tax practice in some cases relies on the principles of the BEPS Action Plan. For instance, on 9 June 2016, the Ministry of Finance announced the establishment of an ad hoc group focused on taxing activities related to digital business. In addition, an investigation was initiated earlier against four companies operating via the internet that avoided paying taxes, including VAT. Evidence has been found that those companies had not registered their local businesses as permanent establishments in Indonesia. Although the companies indicated that their incomes had been received by their headquarters in Singapore, their actions were found to be illegal. The local tax authorities have expressed their intention to further tax income from online advertising.²¹

²⁰ OECD (2017) "Jurisdictions Participating in the Convention on Mutual Administrative Assistance in Tax Matters Status – 29 June 2017." Available at: http://www.oecd.org/tax/exchange-of-tax-information/Status_of_convention.pdf (accessed 04.07.2017).

²¹ PricewaterhouseCoopers (2017) "Indonesia: Overview." Available at: <http://taxsummaries.pwc.com/ID/Indonesia-Overview> (accessed 04.07.2017).

Thus, for some actions of the BEPS Plan, relevant provisions are already incorporated in the Indonesia's legislation, including Action 3 (controlled foreign companies) and Action 6 (tax treaty abuse). For Action 4 (interest deduction), the provisions of the national law are in some contradiction with the OECD recommendations due to some technical differences. New regulations which came into force in January 2016 are not fully compliant with the OECD recommendations since they are based on principles different from the fixed group ratio recommended by the OECD [Deloitte, 2017d]. For Actions 8–10, compliance with the OECD recommendations is partial. As for Action 13, on 30 December 2016, amendments were made to the legislation concerning transfer pricing documentation and CbC reporting. Implementation of some reforms is currently underway. Still, for some BEPS actions no information about implementation is currently available (Actions 1, 2, 5, 7, 12 and 14).

Russia

Although Russia is not an OECD member and does not have key partner status, its G20 membership and 2013 presidency contributed to growing attention to and progress in the BEPS Action Plan implementation at the national level, as well as active engagement in multilateral discussions within the OECD.

Russia officially participates in the work of the OECD Committee on Fiscal Affairs through one of its working bodies – the Forum on Tax Administration.²² Representatives of Russian business participate in public discussions²³ on BEPS issues that can potentially affect them, such as controlled foreign companies [OECD, 2015a] or permanent establishment status [OECD, 2015b], and do so on an equal footing with OECD members and key partners of the organization.

Thus, at the national level Russia actively uses best global tax policy practices. This resulted in the adoption of new legislative initiatives in 2014 aimed, inter alia, at addressing tax base erosion and profit shifting.

As a result, current Russian legislation on tax avoidance reflects several recommendations of the BEPS Action Plan, including thin capitalization rules that limit interest deductions, as well as transfer pricing rules and control procedures. Within a package of measures to “deoffshore” the Russian economy the government has adopted rules for controlled foreign companies, introduced the “beneficial owner” concept, agreed on measures to prevent artificial avoidance of permanent establishment status and proposed various other initiatives related to the BEPS Action Plan.

Short-term plans for tax legislation development (until 2018) also take account of the need to address BEPS. Work is in progress to facilitate the automatic exchange of financial account information with foreign jurisdictions, as well as to improve indirect

²² OECD (2017) “Forum on Tax Administration.” Available at: <https://www.oecd.org/tax/forum-on-tax-administration/about/> (July 2017).

²³ OECD (2017) “Previous Requests for Input.” Available at: <http://www.oecd.org/ctp/previous-requests-for-input.htm> (accessed 04.07.2017).

taxation of electronic services, transfer pricing,²⁴ corporate borrowings taxation and rules for controlled foreign companies. Tax authorities also take measures to enhance international cooperation²⁵ and develop control mechanisms²⁶ in all areas mentioned in the BEPS Action Plan.

Thus, the focus on “deoffshorization” of the Russian economy contributed to the integration of most of the BEPS Action Plan recommendations into national law. Public awareness of the OECD-proposed actions and legislative changes at the national level is growing. In addition, Russian courts increasingly appeal to BEPS Action Plan provisions, thus broadening the practical implementation of the new norms.²⁷ Only a few recommendations of the BEPS Plan have not yet resulted in any legislative changes, specifically Action 2 (hybrid mismatches) and Action 14 (dispute resolution). On Actions 8–10 (transfer pricing) and Action 13 (transfer pricing documentation) relevant provisions are currently under consideration. As for other recommendations, Russian legislation had contained relevant provisions before the adoption of the BEPS Plan and amended others accordingly in short order, including Action 1 (digital economy), Action 3 (controlled foreign companies), Action 4 (interest deduction), Action 6 (tax treaty abuse) and Action 7 (permanent establishment status). For Action 12 (aggressive tax planning), proposals for new initiatives are expected. Recommendations on Action 5 (harmful tax practices) are considered to be irrelevant for the Russian Federation.

More details of Russia’s implementation of the BEPS Action Plan are presented in Table 2.

Table 2. BEPS Actions Implementation in Russia

Action	Implementation Status	Expected Timing
1	On 3 July 2016, the Federal Law No. 244-FZ ¹ establishing new rules for imposing VAT on electronic services provided by foreign entities via the internet was adopted. It entered into force on 1 January 2017. ² The law obliges foreign companies that are not residents of the Russian Federation to pay VAT for services rendered to individuals in electronic form. For this purpose, a special procedure for the registration of foreign entities by the Russian tax authorities is envisaged. In accordance with the new law, the place of realization of electronic services will be determined according to the consumer’s location. If electronic services were provided by a foreign supplier to a Russian consumer, VAT will be payable to the Russian budget	Since 1 January 2017

²⁴ Federal Tax Service (2017) “Transfer Pricing.” Available at: https://www.nalog.ru/rn77/taxation/transfer_pricing/ (accessed 04.07.2017).

²⁵ Federal Tax Service (2016) “Federal Tax Service Participated in the OECD Meeting.” Available at: https://www.nalog.ru/rn77/about_fts/inttax/6107527/ (accessed 04.07.2017).

²⁶ Federal Tax Service (2015) “More than 30 Countries Have Used the Federal Tax Service Experience in Electronic Control.” Available at: <https://www.nalog.ru/rn77/news/smi/5638767/> (accessed 04.07.2017).

²⁷ “The Blaming Strategy.” *Rossiyskaya Gazeta* (2015) Available at: <https://rg.ru/2015/12/08/sydi.html> (accessed 04.07.2017).

Action	Implementation Status	Expected Timing
	in one of the two ways. If services were provided to a Russian legal entity or through a Russian agent, then this legal entity or agent must withhold VAT and transfer it to the budget. If services were provided by a foreign supplier to a Russian individual directly or through a foreign agent, VAT will be payable to the budget by that supplier or agent. In this case, foreign entities must be registered in Russia for VAT purposes. Electronic services covered by this law include: provision of advertising services on the internet, broadcasting of TV and radio channels, hosting services, provision of domain names, provision of trading platforms, granting rights to use information in electronic form (music, electronic books and publications, audio and graphic files), granting rights to use software and databases (access to online games, downloading games to computers and smartphones) [PWC, 2016d]	
2	No information on planned actions available	N/A
3	Legislation on controlled foreign companies has been adopted and is being regularly updated. ³ In accordance with Russian tax legislation, a controlled foreign company is a foreign organization or entity operating without the formation of a legal entity that is not recognized as a resident of Russia and is controlled by organizations or individuals who are residents of Russia. Since 2016 [PWC, 2016b], an individual or legal entity is recognized as a controlling one if its share in the organization exceeds 25%. Russian tax legislation provides for a number of benefits in case of liquidation of controlled foreign companies. Federal Law No. 32-FZ of 15 February 2016 amended the Tax Code of the Russian Federation, particularly the provisions on controlled foreign companies. ⁴ In accordance with this law, the time period for preferential liquidation of such companies was extended until 1 January 2018 [PWC, 2016b]. When a controlled foreign company is liquidated within the specified time period, the taxpayer is released from responsibilities related to control over this company. The property received from the liquidated company is exempt from taxation. In addition, certain privileges are provided for the sale of securities belonging to such a company. The list of states and territories that do not exchange tax information with Russia was approved and later updated ⁵	2015–2017. Implementation ongoing. Clear timelines for full implementation have not been specified, but recommendations can be considered as largely fulfilled
4	Relevant legislation has been adopted, including the thin (insufficient) capitalization rules. ⁶ The rules entered into force on 1 January 2017. Freezing exchange rates for the purposes of thin capitalization has been deferred until 31 December 2019 [PWC, 2016c]. This measure was adopted to prevent the impact of the appreciation of foreign currencies against the rouble in the framework of thin capitalization for old loans, if terms of repaying debts do not change while these provisions are in effect. Thus, for calculating the amount of debt, the exchange rate as of 1 July 2014 is used. These rules reduce the number of cases in which interest expenses are considered to be dividends that will not be deducted when calculating the profit tax. No additional actions are currently expected	Implemented
5	It is considered to be irrelevant, since the Russian Federation is not a member of the OECD and does not have its key partner status	Considered to be irrelevant
6	The practice of including in tax treaties articles that limit benefits is not common. The recommendations were also implemented through the introduction of the “beneficial owner” concept, increasingly used by tax authorities. In Russia, legal entities are obliged to identify their beneficial owners and disclose relevant information to state authorities, in accordance with the Letter of the Ministry of Finance of the Russian Federation No. 03-00-RZ / 16236 of 09.04.2014 “On the Benefits Provided for by International Agreements on the Avoidance of Double Taxation.” ⁷ Failure to comply with these requirements results in a fine of up to 500 thousand roubles. It is expected that in the future financial institutions will be able to refuse to allow such companies to open accounts or to suspend their operations on previously opened accounts	Implemented

Action	Implementation Status	Expected Timing
7	Legislation in line with OECD recommendations was adopted. Provisions concerning permanent establishment status are contained in Articles 306-309 of the Tax Code of the Russian Federation. ⁸ No further action is expected	Implemented
8–10	New transfer pricing guidelines are being developed by the tax authorities, taking into account OECD recommendations. On 6 March 2017, the Ministry of Finance published a revised draft law on transfer pricing, ⁹ supplementing Part One of the Tax Code with certain provisions related to the automatic exchange of financial account information and documentation on international groups of companies	N/A
12	The Convention on Mutual Administrative Assistance in Tax Matters which ensures the disclosure of information on aggressive tax planning has been signed and entered into force. ¹⁰ The Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information has been signed. ¹¹ However, Russian legislation does not yet contain a definition of “aggressive tax planning.” According to some opinions, this leads to abuse by the tax authorities, who consider tax benefits received by companies from transactions with foreign counterparts as unreasonable. In particular, in 2016 24.9 thousand field inspections of organizations and entrepreneurs were conducted, and 99.2% of them revealed violations. As a result, 252 billion roubles of taxes and 97 billion roubles of sanctions and penalties were additionally imposed ¹²	Planned for 2018
13	On 26 January 2017, the Federal Tax Service of Russia signed Multilateral Competent Authority Agreement on the Exchange of CbC Reports. Currently, a draft law is being considered aimed at creating a legal framework that will enable financial institutions to meet OECD requirements. On 6 March 2017, the Ministry of Finance published a revised draft law on transfer pricing, supplementing Part One of the Tax Code with certain provisions related to the automatic exchange of documentation on international groups of companies ¹³	Planned for 2018
14	No information on planned actions available	N/A

¹ Federal law of 03.07.2016 № 244-FZ “On Making Amendments to Parts One and Two of the Tax Code of the Russian Federation.” *Rossiyskaya Gazeta* (2016) Available at: <https://rg.ru/2016/07/06/izmenenia-kodeks-dok.html> (accessed 04.07.2017).

² Federal Tax Service (2016). “VAT on Electronic Services can be Discussed at the FTS Website.” Available at: https://www.nalog.ru/rn77/news/activities_fts/6103267/ (accessed 04.07.2017).

³ Federal law of 15.02.2016 № 32-FZ. Available at: <http://kremlin.ru/acts/bank/40523> (accessed 04.07.2017).

⁴ Federal law of 08.03.2015 № 32-FZ. Available at: <http://kremlin.ru/acts/bank/39499> (accessed 04.07.2017).

⁵ Federal Tax Service (2016) “The Federal Tax Service Adopted a List of States and Territories Not Exchanging Tax Information with Russia.” Available at: https://www.nalog.ru/rn77/news/activities_fts/6040699/ (July 2017).

⁶ Federal law of 08.03.2015 № 32-FZ. Available at: <http://kremlin.ru/acts/bank/39499> (accessed 04.07.2017).

⁷ Letter of the Ministry of Finance of the Russian Federation No. 03-00-RZ / 16236 of 09.04.2014 “On the Benefits Provided for by International Agreements on the Avoidance of Double Taxation.” Available at: http://minfin.ru/ru/document/?id_4=21474 (accessed 04.07.2017).

⁸ Federal law of 24.11.2014 № 376-FZ. Available at: <http://kremlin.ru/acts/bank/39080> (July 2017).

⁹ EY (2017). “A New Version of the Draft Law on the Introduction of Requirements for the Preparation of Documentation for International Groups of Companies in Russia was Submitted for Public Discussion.” Available at: www.ey.com/ru/ru/services/tax/ey-tax-messenger-9march-2017 (July 2017).

¹⁰ OECD (2017) “Jurisdictions Participating in the Convention on Mutual Administrative Assistance in Tax Matters status.” http://www.oecd.org/tax/exchange-of-tax-information/Status_of_convention.pdf (accessed 04.07.2017).

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Source: elaborated by the author based on [Deloitte, 2017e].

Incorporation of the BEPS Action Plan in the Legislation of the BRICS Countries and Indonesia: Comparative Conclusions

Analysis shows that institutional approaches to implementing the provisions of the BEPS Action Plan are different in the examined countries. In China, a special department was created to integrate the provisions of the BEPS Plan into national legislation. The country’s authorities pay considerable attention to national interests in general and those of domestic companies while implementing measures against BEPS. At the same time, this approach limits the comprehensiveness of the implementation of OECD recommendations. India, like China, successfully strives to take into account national interests and business positions. It is necessary to emphasize the desire of the national authorities to provide time for adaptation to legislative innovations and synchronization between actions in line with OECD recommendations. For this reason in particular the introduction of a general anti-avoidance rule was postponed. Indonesia has not yet achieved tangible progress in implementing the provisions in all areas at the national level, but has created conditions for their successful integration into the law in the future. At the same time, some of the norms introduced by the Indonesian government, although consistent with the general logic of the OECD recommendations, are contradictory in technical terms, as in the case of Action 4. In Brazil, the implementation of measures is complicated by the political crisis and low level of awareness of the corporate sector about BEPS. For South Africa, despite some progress in a number of areas, including the creation of a special advisory body on the implementation of the BEPS Action Plan, complex, unclear and inconsistent provisions in the existing tax legislation remain a challenge.

Among all the countries examined, Russia has to date had the most success in the implementation of BEPS Plan provisions. Assessment of the implementation level of individual actions by all countries is presented in Table 3.

Table 3. Assessments of the BEPS Plan Implementation by the BRICS Countries and Indonesia

Action	Brazil	India	China	South Africa	Indonesia	Russia
1	–1	+1	–1	+1	–1	+1
2	–1	–1	–1	0	–1	–1
3	+1	–1	0	0	+1	+1
4	+1	–1	0	0	0	+1
5	+1	+1	+1	0	–1	n/a
6	–1	+1	+1	+1	+1	+1
7	–1	–1	+1	–1	–1	+1
8–10	0	0	+1	0	0	0
12	–1	–1	0	+1	–1	0
13	0	0	+1	+1	+1	0
14	+1	–1	0	0	–1	–1
Average	–0,09	–0,27	+0,27	+0,27	–0,27	+0,30

Source: elaborated by the author.

Further development of relevant legislation in Russia seems necessary due to substantial negative impacts of BEPS on the national tax base, as confirmed by the OECD. At the same time, it may be useful to consider the experience of countries similar to Russia in terms of the status of their collaboration with the OECD and G20 membership. One of the best practices is the creation of a special institution aimed at integrating the provisions of the BEPS Action Plan into national law following the examples of China and South Africa. Another effective approach is to synchronize the implementation of individual recommendations of the BEPS Plan over time, following the example of India. It is also important to note that rapid implementation of the BEPS Action Plan can create additional uncertainty for companies operating in the Russian market, as well as provide foreign jurisdictions with temporary competitive advantages. In this regard, it is important to take account of their commitment to combat BEPS and their experience implementing the Plan in the context of their national environment and the interests of business. The BEPS Action Plan is flexible and allows countries to find an optimal balance for achieving both goals. Finally, foreign tax authorities' experience in informing stakeholders about relevant changes may be useful.

Despite the political differences between Russia and a number of foreign countries, it is actively involved in international cooperation on the implementation of the BEPS Action Plan. In particular, our country has joined the Multilateral Convention to Prevent BEPS. However, as mentioned above, BEPS actions differ in terms of con-

sensus among stakeholders and, accordingly, the level of their formalization. Since 13 actions primarily imply changes in national tax legislation, each of the countries acts at its own pace based on its own economic, political and legal considerations. For this reason, it may sometimes be impossible to learn from the experience of other countries, and some recommendations may be considered unacceptable by national authorities. The fact that Russia has committed to implement measures in relation to BEPS demonstrates its willingness to meet the highest standards in the field of international taxation and to promote cooperation on these issues. Further efforts should be made to implement these measures, focusing not only on improving national legislation, but also on stimulating interaction with other countries. Tax base erosion is an international process that requires mutual efforts to be addressed.

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Подходы стран БРИКС и Индонезии к реализации положений Плана BEPS¹

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Размывание налогооблагаемой базы и перемещение прибыли (tax base erosion and profit shifting, BEPS) является глобальной проблемой. Поиск путей ее решения — актуальная задача для большинства стран. Глобальный экономический кризис привел к формированию новой среды и требований к ведению бизнеса. Эти требования разрабатывались двумя ключевыми международными институтами: ОЭСР и «Группой двадцати». Такой подход позволил привлечь к процессу не только развитые и развивающиеся государства, являющиеся членами данных институтов, но и широкий спектр государств-партнеров. В результате общее количество стран, заявивших о своей приверженности Плану BEPS, превысило 100.

В данной статье оценивается уровень исполнения рекомендаций Плана BEPS в Индонезии и пяти странах БРИКС. Автор проводит мониторинг их действий по 13 из 15 Мероприятий Плана (исключая Мероприятия 11 и 15), а также выявляет ряд наилучших практик, которые могут быть полезны в связи с реализацией Плана в России.

В рамках мониторинга рассматриваются совершенные и планируемые действия, в первую очередь поправки и новые нормы национального законодательства, а также планируемые периоды имплементации для каждого из Мероприятий. Кроме того, автор оценивает институциональные условия реализации положений Плана, а также механизмы консультаций и информирования заинтересованных сторон.

Анализ показывает, что подходы шести стран к реализации Плана BEPS различаются. Хотя некоторые из них отстают по срокам реализации, каждая из стран продемонстрировала действия, которые можно рассматривать как лучшие практики. Россия достигла наибольших успехов с точки зрения объема реализации Плана.

Ключевые слова: размывание налогооблагаемой базы и перемещение прибыли (BEPS); налогообложение; избежание налогообложения; БРИКС; Индонезия; транснациональные корпорации, трансфертное ценообразование

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Implementing the G20/OECD Principles of Corporate Governance: What is the Progress in BRICS and Indonesia?¹

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The article analyses the implementation of the G20/OECD Principles of Corporate Governance by Russia in comparison to other BRICS countries and Indonesia. Originally, this document was adopted by OECD in 1999. The last (third) version of the document was developed in 2014–2015, with an active involvement of G20 countries, and was adopted at the G20 Summit in Antalya (Turkey) in November 2015. Dramatic changes are absent in the new document, however, it contains several new recommendations, which became necessary after the global economic crisis of 2008–2009.

The article is focused on the actions of six countries that were chosen for the analysis, as well as on the real changes in these countries. The author takes into account OECD recommendations on the assessment of implementation of G20/OECD principles. According to these recommendations, researchers should not pay too much attention to the quantitative analysis, since many important issues are unobservable for them. Considering this, the author accentuates qualitative research methods and comparative analysis. The results of the study show that Brazil, Indonesia and Russia were most active in implementation, while South Africa and China lacked any actions, and India achieved only partial implementation.

Despite the large number of facts documenting formal implementation of corporate governance principles in Russia during the last years, Russia definitely lacks real improvements. This is true for information disclosure (including data on the management remuneration), gender diversity on corporate boards, the share of independent directors, etc. Moreover, Russian companies are characterized by high concentration of capital, and the role of boards is often reduced to formalities. According to the results of the research, similar limitations are found in the systems of corporate governance of other countries covered by this study. Taking into account the limited accessibility of information on real changes and real implementation in other BRICS countries and Indonesia, the author assesses the Russia's efforts as "substantial implementation", though due to the presence of gaps between actions and changes, Russia's efforts should be assessed as "partial implementation."

Key words: corporate governance; G20; OECD

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Introduction

OECD Principles of corporate governance were first adopted in 1999. Very quickly they gained a reputation of an authoritative international benchmark for good corporate governance, which began to widely disseminate among OECD countries and beyond this organization. Later the document was twice revised; the last revision was conducted in 2013–2014, as a response to the global financial and economic crisis of 2008–2009. It should be noted that insufficient quality of corporate governance played quite a considerable role in the crisis events.

The last, third, version of the Principles of corporate government was developed by OECD with an active involvement of G20 countries, including developing countries that have no OECD membership. This is why this version was called G20/OECD Principles of corporate governance [G20/OECD, 2015]. The revised document was adopted in November 2015 at the G20 Antalya summit [University of Toronto, 2015]. Presently, almost two years after its adoption, the main issue is the implementation of the revised Principles.

The goal of this article is to find key facts of the implementation of the new document in BRICS countries and Indonesia, as well as to conduct a comparative analysis of these facts in Russia and other countries selected for the study. The author used qualitative analysis methods: comparative study and content analysis of the international documents and reports. Following OECD recommendations and taking into account the drawbacks and limitations of quantitative evaluations due to substantial differences in the national systems of corporate governance and in focuses of countries that implement the new document, the author abandoned the idea of using quantitative evaluation techniques.

Key Changes of the 2015 Version of Principles

Before starting the analysis of the implementation of the new principles of corporate governance itself, it is necessary to shortly review the major changes of the 2015 edition. It should be noted that the wording of the principles in the new version has little changed. The 2015 document has only one new paragraph (“Institutional investors, stock markets, and other intermediaries”), but its text was partially taken from the “The Equitable Treatment of Shareholders” paragraph of the 2004 document [Larionova, Lanshina, 2016]. The text of the Principles itself has undergone more substantial changes which are shortly reviewed below.

The *first principle* of the 2015 edition (“Ensuring the basis for an effective corporate governance framework”) gained two new subparagraphs. In the new text it is noted that effective corporate governance should be supported by the stock market regulation. Quality of stock market rules is an important element of the corporate governance system. Regulatory and supervisory authorities should assess the role of stock exchanges in corporate governance. Also, the new principles call for the intensification of cross-

border cooperation, including through bilateral and multilateral arrangements for the exchange of information. Evidently, these new provisions are a reaction on the global financial and economic crisis of 2008–2009.

The new version of the document notes that legislative and regulatory elements of the corporate governance system should be complemented by soft norms based on the principle of “comply or explain,” for example, by corporate governance codes. This will provide flexibility and allow to take into account the characteristics of individual companies. Government agencies should be endowed with powers in law enforcement and sanctions. Supervisory, regulatory and law enforcement agencies should be independent and accountable. According to the document, in many countries, the problem of the stock market supervisory body independence was solved by creating councils or commissions whose members were appointed for a certain period of time. Appointments that are not binded to the political calendar, as well as non-simultaneous appointments contribute to the independence of such a body.

The *second principle* (“The rights and equitable treatment of shareholders and key ownership functions”) of the new edition was complemented by a subparagraph prohibiting impediments to cross border voting. Problems with cross border voting usually arise because foreign investors often own their shares through complex cross border intermediary chains. To avoid impediments to cross border voting, it should be clear who is eligible to vote in such situations. One more novelty – the requirement to approve related-party transactions and to address the conflict of interest in such transactions in a proper manner. Top managers and board members should provide information on material interest in transactions that have relation to the company.

Also, according to the new edition, all shareholders should be equally treated; impediments to voting (i.e., sending voting material just ahead of the shareholders’ general meeting, charging fees for voting and other unfair practices) should be avoided. The 2015 version stresses that shareholders should be informed about the compensation policy, as well as about the total volumes of compensation and its forms. Companies and countries should facilitate the use of information technologies to promote voting by shareholders.

Third and fourth principles (“Institutional investors, stock markets, and other intermediaries” and “The role of stakeholders in corporate governance”) contain very few changes. Commentaries to the third principle list the key challenges facing corporate governance in the last decade and note that the corporate governance system should give the right signals to the investment chain as well as provide conditions, under which the work of stock markets will have a positive influence on the effective corporate governance. To the fourth principle it was added that international conventions and national rules admit the right of employees on information, consultation and negotiation. In the new Principles, company’s clients are included in the list of stakeholders, in line with investors, employees, creditors and suppliers.

The *fifth principle* of the 2015 edition (“Disclosure and transparency”) notes the desirability of company’s non-financial information disclosure (e.g., donations, made

for political reasons). In some countries the disclosure of that kind of information is obligatory for large companies. The text of the principle also notes the desirability of information disclosure on compensation and employee representation mechanisms. Some countries place requirements to corporate websites with regard to providing up-to-date and significant information.

The 2015 version of the document misses the last subparagraph of the fifth principle, that was present in the 2004 edition. According to this subparagraph, the system of corporate governance should admit and facilitate cooperation of companies with analysts, rating agencies and other organizations. According to the 2004 edition, such cooperation is necessary for investors to make decisions that are free of conflict of interests. Obviously, this change is the consequence of the 2008–2009 global crisis.

The *sixth principle* of the 2015 edition (“The responsibilities of the board”) accentuates the growing importance of board’s control for risk management. This kind of control should comprise oversight of the accountability and responsibility for managing risks, with attention to types and degrees of risk that company is willing to take. Moreover, according to the new version of principles, boards should consider the establishment of additional specialized committees to improve the performance of the whole board. In particular, this relates to audit, compensation policy and risk management. Also the boards should conduct regular evaluations of their performance.

Summing it up, the revised version contains a number of important updates, though the changes are hardly dramatical. After the financial and economic crisis of 2008–2009, one could or even should have expected a greater revision. Apart from that, the new document still considers economic results in a very narrow context, without due attention to ecological aspects, life quality issues and sustainable development goals [Larionova, Lanshina, 2016].

Methodology for Assessing the Implementation of the G20/OECD Principles of Corporate Governance

Key priorities and opportunities in the sphere of G20/OECD Principles of corporate governance implementation were quite clearly formulated by the Business and industry advisory committee (BIAC) in April 2016 (in its commentaries on future OECD work). According to the commentaries of BIAC, the practical implementation should consider country specifics, including cultural background and opportunities; equally important is to take into account the results of OECD corporate governance reports [BIAC, 2016].

A draft methodology for assessing the implementation of the principles was published by OECD in an annex to its Progress report on the implementation of the G20/OECD Principles of corporate governance [G20/OECD, 2016]. The final methodology was published in 2017 [OECD, 2017a].

Both draft and final versions of the methodology contain clarifications on the key aspects of the new edition of the Principles and suggest using the following conclusions on the implementation: fully implemented, broadly implemented, partially im-

plemented, not implemented and not applicable. As noted in the final version of the methodology, though some quantitative indicators may be taken into account, the reviewer should not reduce his or her assessment to scoring or to the analysis of a set of quantitative indicators [OECD, 2017a].

Moreover, all versions of the Principles admit the absence of a unified model of effective corporate governance; therefore, the Principles were formulated rather generally, so that countries could interpret and implement them with regard to their legislative, historical, cultural and other specifics. This additionally complicates quantitative research and makes it of little use.

According to the OECD recommendations on the implementation of the Principles, one should assess the legal framework and implementation measures, corporate practices, as well as the functioning of markets. The analyst should take into account, that the methodology is focused on jurisdictions, not on certain companies. Since practice of corporate governance in different companies of the same jurisdiction often vary, it is questionable, how widespread a practice should be or how strong a violation of the recommendation should be, to conclude that a jurisdiction is or is not implementing the principle. Taking into account all above, it is quite difficult to develop a clear evaluation guide. As is stated in the document, the best approach to evaluation may be orientation on the qualitative analysis and common sense. Also, according to the Methodology for assessing the implementation of the G20/OECD Principles of corporate governance, the analysis should be deep enough to make conclusions whether the principle has been implemented not only theoretically but also practically [OECD, 2017a].

In this study the author takes into account the recommendations of the official guide on assessing the implementation of the revised G20/OECD principles of corporate governance [OECD, 2017a], refusing of quantitative assessments and relying on common sense. The author conducts a comparative study of the major implementation facts in Russia and other BRICS countries as well as Indonesia.

General Features of the Corporate Governance in BRICS Countries and Indonesia

We will start by detecting the general corporate governance features in the selected for this study countries. As noted in the report of the International Organization of Securities Commissions (IOSCO), which was published in October 2016, regulatory framework in the developing countries is generally compatible with the recommendations of the G20/OECD Principles of corporate governance. The IOSCO report analyses corporate practices of all selected for this study countries except for Indonesia by three key aspects of corporate governance: formation of the board, compensation and motivation mechanisms, risk management and internal control [IOSCO, 2016].

Nevertheless, in general, systems of corporate governance and capital markets of the selected for this study countries are insufficiently mature and need further improvements. Their specifics include highly concentrated ownership structure, low shares of

independent directors, low transparency, high level of corruption, large number of corporate scandals. Rules and laws that regulate the rights of creditors and shareholders in the selected for this study countries are often used in practice in different manners [IMF, 2016].

The quality of corporate governance in China, India and Indonesia is considered to be rather low even among the Asian countries. These countries are at the end of the corporate governance rating which is compiled once in two years by the Asian Corporate Governance Association (ACGA). According to the last rating, compiled in September 2016, among 11 Asian countries three first places were taken by Australia, Singapore and Hong Kong. India came 7th, China – 9th, Indonesia – 11th. India managed to improve its results compared to 2014 by one point, China's score declined by two points, though the authors of the rating admitted improvements in the Chinese practice of corporate governance. Indonesia's score declined by three points [CG Watch, 2016].

Formal Implementation of the Revised Principles: Russia and other BRICS Countries as well as Indonesia

Back in 1990s, the corporate governance in Russia was flawed and underdeveloped. Companies often neglected interests and rights of their minority shareholders, their activities had low transparency, and their practices of corporate governance were of poor quality. All these factors formed their negative image abroad and discouraged investment. Then, largely due to the expansion of Russian companies in foreign markets, the situation began to improve, among other things because of the pressure from foreign partners. A similar situation was observed in many other BRICS countries and in Indonesia, where international cooperation has also played the role of main driver of positive changes in corporate governance.

The main laws regulating corporate governance in Russia are the federal law No. 208-FZ of 26 December 1995 “On public companies” (with amendments; the last amendment was introduced in 2016), the federal law No. 14-FZ of 8 February 1998 “On limited liability companies” (with amendments; the last amendment was introduced in 2015), and the federal law No. 39-FZ of 22 April 1996 “On the securities market” (with amendments; the last amendment was introduced in 2015).

The basis of responsible corporate governance in Russia is formed by a number of documents adopted in the 2000s, long before the G20 countries began to actively participate in updating the OECD Principles of corporate governance. In 2002, the congress of the Russian Union of Industrialists and Entrepreneurs (RSPP) adopted the Charter of corporate and business ethics. In 2004, the congress of RSPP adopted the Social charter of Russian business; in 2008, this document was amended. In 2012, Russia introduced the Guidance on social responsibility (international standard ISO 26000) for the first time.

Russia is characterized by high ownership concentration in public companies. In 2014, in about 43 percent of 96 Russian largest public companies, one owner or one

group of owners had more than 75 percent of shares. A similar situation is observed in most other countries, especially in the developing world. Only four countries in the world are characterized by a largely disseminated structure of corporate ownership – Australia, Ireland, Great Britain and the USA. U.S. public companies are seldom controlled by a major shareholder. The share of a major shareholder in 90 percent of British companies with LSE listing is 25 percent or less. As to other selected for this study countries, the situation does not differentiate much from the situation on Russia. In Brasil, most public companies are controlled by a single shareholder, a foreign company or a corporate group. According to estimates, more than 70 percent of Brazil companies have family or share ownership. In Indonesia, 70 percent of shares of listed firms are held by controlling shareholders, and 54 percent of the total market capitalization is held by family business groups. Most South African listed companies have a controlling shareholder or shareholders [OECD, 2017b].

Russia has recently done much to improve the quality of its corporate governance. In September 2013, the Bank of Russia acquired the functions of the Russian Federal Service for the Financial Markets (FFMS) and became a mega-regulator of the Russian financial market. The list of its functions now includes corporate governance regulation, among other things. In this regard, the Bank of Russia began to conduct explanatory and methodological work with public companies aimed at improving the quality of corporate governance. The Bank of Russia has also shown its intention to actively work to improve corporate governance in Russia and avoid formalism in tackling this issue. Along with other tasks, according to the Russia's Central Bank representatives, the coming years will see the growing necessity to increase the shareholders' activity in corporate decisions and in increasing transparency of top management compensation policies [OECD, 2016a].

Russia and other selected for this research countries adopted their corporate governance codes 15–20 years ago. The first² was South Africa – it adopted its first code in 1994. The Indian code of corporate governance was published in 1998, the Indonesian one – in 2000, the Chinese one – in 2001, the Russian one – in 2002, the Brazilian one – in 2004 [European Corporate Governance Institute, 2016].

In 2014, the Bank of Russia approved the new Code of corporate governance (companies comply with its provisions on a voluntary basis; this code is an instrument of soft governance), containing dramatic improvements compared to its earlier 2002 version. For instance, it lists not only expected company performance, but also recommendations on strengthening information disclosure policies and on protection of shareholders' rights, on board composition (the criteria for the board member independence clarified, the recommended share of independent directors increased from one quarter to one third), on board performance assessment, on top management and board members' compensation policies, on dividend policies, etc. The code was ap-

² Earlier than other selected for the study countries.

proved by the board of the Bank of Russia and recommended to public companies³. It is based on the OECD Corporate governance principles.

Now the most important task is the implementation of the updated code, and Russia makes much effort to accomplish this task [IMF, 2016]. Thus, in its letter of 17 February 2016, the Bank of Russia published a list of recommendations on compliance with the Code's principles and guidelines. These recommendations concern the disclosure of information on such aspects of corporate governance as the composition of the board, the effectiveness of the decision-making process, the role of major shareholders, transactions with related parties, risk management, internal control, etc. [Tsentrал'nyy Bank Rossiyskoy Federatsii, 2016]. In 2016, the Ministry of Finance prepared amendments to the law "On Banks and on Banking Activities," according to which, financial organizations must carry out transactions with related parties on market terms [Financial Stability Board, 2017].

In recent years, several other selected for this study countries have revised their corporate governance codes. For example, in 2014–2015, key associations of Brazil public companies (ABRASCA, AMEC и IBGC) joined their efforts to develop the fifth revised version of the voluntary corporate governance code. This initiative was supported by the Securities and Exchange Commission of Brazil and by the Brazilian Development Bank, which were involved in the development of the new version of the code as observers. The fifth version of the code was published in 2016 (the first one – in 1999), after the adoption of the G20/OECD Principles of corporate governance at the G20 Antalya Summit in 2015 [IFC, 2016]. Later the Securities and Exchange Commission of Brazil may oblige all public companies to comply with the guidelines of the code [ICLG, 2016].

The key principles of the fifth corporate governance code of Brazilian companies are transparency, fairness, accountability and corporate responsibility [IBGC, 2016]. In general, the code complies with the updated G20/OECD Principles of corporate governance, even on some aspects that have been insufficiently addressed in the G20/OECD document itself, for example, on the company's responsibility for its impact on the social sphere and ecology, and also on the disclosure of information on such impact.

In 2014, Securities and Exchange Board of India (SEBI) approved a new code of corporate governance. Its goal is to increase the transparency of Indian public companies. The new document requires the introduction of a whistleblower policy, the disclosure of top management remuneration policy, the imposition of restrictions on the maximum number of boards that one director would be allowed to be a member of, as well as the presence of at least one woman on each board [Reuters, 2014]. Also, the presence of at least one woman on the board is required by the Companies Law of 2013.

Also in 2016, South Africa published a new King report on corporate governance, which in fact is a code of corporate governance. Preparation of the last – fourth –

³ Since September 2014, the Civil Code of the Russian Federation classifies public and non-public joint-stock companies; before that, it classified open and closed joint-stock companies (JSC and CJSC).

King's report was necessary because of a significant change in corporate governance and its aspects at the international and national levels after 2009, when the third report was published. Interestingly, in King's latest report, the "comply or explain" principle is replaced by the "comply and explain" principle. In addition, the 75 principles of the third report are reduced and consolidated into 16 principles, which makes the structure of the new document more clear and simple. Special attention is paid to the compensation policies. The fourth version of the report recommends that both the remuneration policy and the report on its implementation should be put up for an optional consultative vote. The third report recommended to put up for a vote only remuneration policies. Also, the latest version of the report lists requirements to remuneration policy: it must attract, motivate, reward and retain human resources, contribute to the achievement of strategic goals within the acceptable risk limits of the organization, stimulate the achievement of positive results, promote ethical culture and responsible corporate behavior [Institute of Directors Southern Africa, 2016].

The most important tasks of the new King's report are the transition from formal implementation ("for a tick") to meaningful practical application of recommendations, as well as the use of the code not only among public companies but among all organizations. To fulfill these goals, the document delineates the principles and recommended practices. The focus of the new King report is business ethics and effective management: a company should not only bring operational results, it should also be successful in the overall economic, social and environmental contexts. The top management remuneration system should take into account not only the creation of shareholder value, but also the company's impact on the social sphere and environment [Institute of Directors Southern Africa, 2016].

In Russia, the implementation of the new G20/OECD document was discussed at the meetings of the OECD – Russia Corporate Governance Roundtable in October 2015 [OECD, 2016a] and in November 2016 [Natsional'naya assotsiatsiya korporativnykh direktorov, 2016]. Moreover, in 2015, the Moscow exchange and OECD created a Companies circle in the framework of the OECD-Russia Corporate Governance Roundtable, thus extending the format of this roundtable. Twelve largest Russian public companies became members of this circle. The main objective of the circle is to provide expert and organizational assistance to members of the club in order to improve their corporate governance [OECD, 2016a].

Apart from OECD – Russia Corporate Governance Roundtable, especially great work on the analysis of the specifics of the introduction of corporate governance principles and best practices in this area was carried out only by the OECD – Asian Roundtable on Corporate Governance (among its members are India, Indonesia and China). At the meeting of the OECD-Asian Roundtable on Corporate Governance on 29–30 October 2015 in Bangkok (Thailand), the participants discussed opportunities for practical use of the new Principles in Asian countries, its relevancy in the region and key implementation challenges. Representatives of all of the selected for this study Asian countries held reports – representatives of China (China Association for Public

Companies, CAPCO), India (Institute of Company Secretaries of India) and Indonesia (Indonesia Financial Services Authority) [OECD Asian Roundtable on Corporate Governance, 2015]. At the next meeting of the OECD-Asian Roundtable on Corporate Governance, on 24–25 October 2016, the participants discussed the implementation of the new Principles in Asian context, the perspectives of corporate governance for the next 5–10 years, the disclosure of beneficial ownership and control, the role of stock exchanges in corporate governance, etc. [OECD Asian Roundtable on Corporate Governance, 2016].

Some countries have held their international events without the OECD involvement. For example, the Indian Institute of Financial Directors announced 2016 the year of corporate governance, and on 15 April 2016, it held an International roundtable on corporate governance in New Delhi (India). The roundtable was attended by representatives of corporations, regulators, and research organizations.

The OECD Latin American Roundtable on Corporate Governance (Brazil is its member) has not yet touched upon the issues of implementation of the new G20/OECD document. Despite this, Brazil has been actively interacting with OECD in the field of corporate governance. At the end of 2015, OECD launched a joint programme of work with Brazil for 2016–2017. This programme envisages intensive interaction of Brazil with OECD committees and working groups, so that Brazil could accept international standards in a number of areas, as well as engaging Brazil in the development of international standards, including in the area of corporate governance. It is expected that not only Brazil will benefit from this cooperation, but also OECD countries [OECD, 2016b].

Russia has made quite a lot of efforts to improve legislation in the field of corporate governance and to assess the quality of corporate governance in the largest companies. It should be noted, that the last amendments to the laws “On public companies” and “On the securities market,” which entered into force on July 1, 2016, allowed shareholders to receive information on corporate actions, as well as participate in the general meeting of shareholders and take some other actions in electronic form. This directly corresponds to the G20/OECD Principles of corporate governance, that call to engage shareholders in the voting process.

In 2016, Russia approved the roadmap “Improvement of corporate governance,” for 2016–2018 (order of the Government of the Russia Federation No. 1315-r of 25 June 2016 № 1315-p). This document is expected to strengthen the protection of minority shareholders’ rights and to improve Russia’s positions on the World Bank’s Doing Business “Protecting minority investors” indicator (from 5.67 points in 2016 and 5.7 points in 2017 to 6.67–6.83 points in 2018). To achieve this goal, the document calls to strengthen the requirements for information disclosure (related party transaction), to introduce a mandatory information disclosure on transactions of all corporate group members for joint stock companies, to formalize in legislation the provisions on the audit committee of the board and on the organization of internal audit and internal control and risk management system, to introduce a mechanism for disclosing infor-

mation on remuneration and compensation of top managers and board members, etc. [Pravitel'stvo Rossii, 2016].

When forming Russian methodology for assessing the implementation of the best practices of corporate governance, Russia took into account OECD expertise and practice, to which it gained access during its participation in the OECD work on updating the methodology for assessing the implementation of the revised G20/OECD Principles [Bank Rossii, 2016a].

In 2016, according to the “The work plan for the cooperation of the Russian Federation with the Organization for Economic Cooperation and Development (OECD) for 2016,” Russia and OECD realized a joint project “Assistance in reforming the legislation of the Russian Federation in the sphere of corporate governance.” In 2017, a similar plan was adopted for 2017–2018 [Bank Rossii, 2016b].

At the last meeting of the OECD – Russia Corporate Governance Roundtable, in November 2016, the National Index of Corporate Governance was presented, which was compiled by the National Association of Corporate Directors (NACD) and RSPP in order to assess the compliance of Russian companies with the principles of the Code of corporate governance. According to the results of the survey, in 2016, companies were complying with the code recommendations at 67.38 percent. The survey concluded that compared to 2015 the share of women on the Russian boards has not increased – it stayed at 8 percent level. The share of independent directors increased from 25 to 35 percent. The attendance at meetings of the boards has slightly increased – from 93 to 95 percent. The list of companies with best corporate governance practices included Sistema, Bashneft, Cherkizovo Group, MMK Group, Megafon, MTS, Rosneft, Sberbank, Severstal, TMK [Natsional'naya assotsiatsiya korporativnykh direktorov, 2016].

Starting with 2017, the Bank of Russia pledged to publish annual reviews of corporate governance practices that will monitor the implementation of the new Corporate Governance Code in Russian companies. The first survey of the Bank of Russia was published in April 2017 [Bank Rossii, 2017]. It was compiled on the basis of voluntarily completed forms, which were sent by 84 public companies (85 percent of all public companies that have their shares in the MICEX quotation lists). According to the general conclusions of the Bank of Russia, none of the public companies have achieved 100 percent compliance with the Code recommendations (though one company demonstrated compliance by 97,5 percent), and the average level of compliance was 58 percent.

Similar efforts have been undertaken with varying intensity by other selected for this study countries. In recent years, the Securities and Exchange Commission of Brazil has stimulated the participation of minority shareholders through a mechanism allowing all shareholders to send their votes through Internet before the general shareholder meeting. The introduction of this mechanism will become mandatory for the largest companies in 2017, for all companies – in 2018 [Calkoen, 2016].

In September 2015, Brazil stock exchange BM&FBOVESPA started to reform the system of corporate governance at state-owned enterprises. The reform is aimed

at restoration of investor confidence in state-owned companies through increasing the transparency of such companies, introduction of internal control measures (developing internal codes of corporate governance and conducting trainings on the application of their recommendations, etc.), revision of the boards composition (minimum requirements for the appointment of directors, 30 percent of directors should be independent). Moreover, from August 2017 on, the majority of members of risk management committees, as well as the majority of board members of systemically important financial institutions should be independent [Financial Stability Board, 2017]. The Congress of Brazil is currently discussing a bill that will introduce corporate governance rules for state-owned enterprises [ICLG, 2016].

In 2014, the Financial services authority of Indonesia (OJK), which regulates and supervises financial services markets, published the Indonesia Corporate Governance Roadmap that contains plans on major reforms in the sphere of corporate governance [KPMG, 2016]. The document is aimed at improving corporate governance in five aspects: corporate governance framework (i.e., developing codes of corporate governance), protection of shareholders, the role of stakeholders (anticorruption policies and their disclosure in annual reports, equity-based payments to employees), information transparency (shareholder disclosure, sufficient information disclosure in Indonesian and English at the corporate websites), as well as board's role and responsibilities [The Jakarta Post, 2014].

On 17 November 2015, the Financial services authority of Indonesia issued a circular letter containing the Guide on corporate governance for public companies. On the same day, the authority issued an order No. 21/POJK.04/2015, which requires public companies to comply with the principle "comply or explain" from 31 December 2016, according to the new guide. The Guide on corporate governance for public companies requires companies to create and disclose voting procedures and when possible to create closed (confidential) voting procedures. The minutes of the annual shareholders' meeting must be published on time on the website. Companies should develop and implement a policy of communication with shareholders/investors. Members of the board of directors must have different experiences and competences in order to prevent group thinking. A policy of self-monitoring of the board is necessary as well as regular evaluations. Members of the boards must resign in case the facts of their involvement in financial crimes are discovered. A policy to prevent insider trading, corruption and fraud is needed, as well as a policy of informing management about illegal activities of company employees. Public companies should disclose their ultimate beneficiaries who own at least 5 percent of the shares [KPMG, 2016].

Real Implementation of the New Principles: Russia and other BRICS countries as well as Indonesia

From the formal point of view Russia and some other selected for this study countries have recently taken actions to improve their corporate governance systems and

to implement both the recommendations of their corporate governance codes and the revised G20/OECD Principles of corporate governance. The real effect of these actions is still difficult to assess, because not enough time has passed; moreover, a number of corporate governance problems so far remains relevant. For example, according to the 2017 report of the Laboratory for business communication studies of the Higher School of Economics and Professional investors association [Nauchno-uchebnaya laboratoriya issledovaniy v oblasti biznes-kommunikatsiy VShE, Assotsiatsiya professional'nykh investorov, 2017], which analysed the quality of the corporate governance in 13 largest Russian state companies, less than 50 percent of these companies have independent directors, and the existing independent directors are often only formally independent from the government or other controlling shareholder. At the same time, minority shareholders demonstrate low activity.

As for minority shareholders, in some selected for research countries, their positions in recent years have deteriorated. Thus, according to the IMF research, India belongs to a small group of countries, where in 2006–2014 the protection of minority shareholders' rights worsened. Also during this time, transparency in reporting and auditing has decreased [IMF, 2016]. Other countries have demonstrated improvements. For example, according to the same source, in 2006–2014, China has been consistently strengthening protection of minority shareholders [IMF, 2016].

According to [Nauchno-uchebnaya laboratoriya issledovaniy v oblasti biznes-kommunikatsiy VShE, Assotsiatsiya professional'nykh investorov, 2017], recent years have seen significant improvements in the sphere of information disclosure among Russian companies – almost all public companies publish information in Russian and English. However, data on shareholders who proposed candidates to the board or put the issue on the agenda of the general meeting of shareholders are not always complete. Information on related-party transactions is also disclosed reluctantly. Dividend policies are not always clear. The disclosure of information on the remuneration of top managers is insufficient. The assessment of investors' perception of the quality of corporate governance varies from 1.6 out of 5.0 points in Transneft and 1.85 points in Gazprom to 4.07 points in Sberbank. That is, there is a risk that the quality of corporate governance in some of the largest public companies is extremely low.

The key conclusion of the Deloitte study “Corporate governance structures of Russian public companies in 2015” was that after 2012, the trend of improving corporate governance in public companies in Russia was replaced by stagnation. Also, the study notes the slow implementation of the new Corporate Governance Code. For example, only 41 percent of the surveyed companies were complying with the recommendation of the Code on the share of independent directors (33 percent) [Deloitte, 2016]. The authors of the report attribute the deterioration in the dynamics of corporate governance development in Russia to the fact that during the past decade the key factor of improvements was the pressure from international capital markets. Recently, the impact of this factor has decreased.

Formal indicators and surveys of market participants on the state of corporate governance in specific companies give different results. In particular, this conclusion was drawn from the results of the study “Index of corporate governance – 2016,” which was conducted by the Association of independent directors and the National research university – the Higher School of Economics [Assotsiatsiya nezavisimyykh direktorov, NIU VShE, 2016]. Top-10 companies with highest scores by formal criteria were headed by Sberbank, Inter RAO UES and Rosneft. At the same time, none of these companies was included in the top 10 companies with the highest scores according to the survey of respondents. The leaders in this list were Moscow Exchange, MTS and Enel Russia. Among the companies with the highest discrepancy between the results of the survey and the results of the evaluation by formal criteria were Enel Russia, Polyus, E.ON Russia, Novatek, MTS, TGC-1, Lukoil.

According to the G20/OECD Principles of corporate governance (part V.A.5), “national principles, and in some cases laws, (...) recommend that a significant part, in some instances a majority, of the board should be independent.” In Russia, according to the report of the Association of independent directors “The development of the Institute of Independent Directors” [Assotsiatsiya nezavisimyykh direktorov, 2015], in 2015, only 30 percent of directors were regarded as independent⁴. This does not correspond even to the Russian corporate governance code, which recommends to have at least 1/3 of independent directors – i.e., more than 33 percent. For comparison, in India, according to multiple sources, including the representatives of government bodies, independent directors are not actually independent at all [Indiatoday, 2017].

The new version of the G20/OECD Principles pays attention to the gender diversity of the boards (“Countries may wish to consider measures such as voluntary targets, disclosure requirements, boardroom quotas, and private initiatives that enhance gender diversity on boards and in senior management”, – part VI.E.4). In Russia, women are traditionally underrepresented on boards, as well as in managerial positions. Moreover, according to the report of the Association of independent directors “The Development of the Institute of Independent Directors” [Assotsiatsiya nezavisimyykh direktorov, 2015], in 2015, their share on boards of Russian companies has decreased by 16%. This is contrary to international trends, which indicate a growth in the representation of women on boards of public companies. According to Deloitte Touche Tohmatsu [Deloitte, 2015], in 2015, in some countries the share of women on boards was quite high: in Norway the value of this indicator reached 36.7 percent, in France – 29.9 percent, in Sweden – 24.4 percent, in Italy – 22.3 percent. Though we shall admit, that the average share of women on boards in the world is still quite low – about 12 percent, and the low average value is provided not only by developing countries, but also by some developed ones, e.g., by the U.S. and Japan. In 2015, the value of this indicator in Russia

⁴ It should be noted that different assessments of the quality parameters of corporate governance in Russia differ significantly from each other. For example, the data presented here is different from the data, which were presented above.

was twice as low as the world average – 5.7 percent. Among Russian public joint-stock companies, there was not a single case where a woman was the chairman of a board.

According to a report of Deloitte [Deloitte, 2015], women play a significant role in Russian corporate governance, however, at present, there are no norms in Russia aimed at strengthening their role. There is also no policy to encourage the appointment of women to the boards of Russian state-owned enterprises. For comparison, France and Italy managed to achieve high results, among other things, due to the introduction of the requirement for mandatory gender diversity of the boards.

Many other selected for this research countries face problems in the practical implementation of the gender diversity of the boards. For example, boards of Indian public companies were required to include at least one woman by October 1, 2014, but many companies did not comply with this requirement. Out of 1,500 of public companies that have listing at the National Stock Exchange of India (NSE), 147 companies (12 percent) did not cope with this task even after the deadline was extended by six months. Other 770 companies employed women, which cannot be considered as independent (i.e., they are close relatives of top managers) [Sehgal, 2015].

The G20/OECD Principles of corporate governance call countries to disclose information on their top managers' and board members' remuneration policies. "In particular, it is important for shareholders to know the remuneration policy as well as the total value of compensation arrangements made pursuant to this policy. Shareholders also have an interest in how remuneration and company performance are linked when they assess the capability of the board and the qualities they should seek in nominees for the board" (part II.C.4). "Disclosure on an individual basis (including termination and retirement provisions) is increasingly regarded as good practice and is now mandated in many countries. In these cases, some jurisdictions call for remuneration of a certain number of the highest paid executives to be disclosed, while in others it is confined to specified positions" (part V.A.4).

In 2016, the Bank of Russia considered the opportunity to introduce mandatory disclosure of information on bonuses of top managers and members of corporate boards starting from 2017. According to the Bank of Russia's draft document, the regulator could oblige companies to publish key performance indicators, on which the remuneration of top managers and board members depends [Bank Rossii, 2016c]. The regulator agreed that disclosure of remuneration data could make companies more transparent. However, back in 2016, the Bank of Russia considered that the publication of information on the remuneration of certain top managers could increase tensions in society and create criminal threats. Companies can still voluntarily disclose information on the remuneration of their top managers, but they usually prefer not to do this. Only the total amount of remuneration of all members of the board is mandatory for disclosure. As a rule, the relationship between the remuneration of top managers and other managers and the performance of the company is unclear.

A survey of the Laboratory for business communication studies of the Higher School of Economics and Professional investors association in 2017 [Nauchno-ucheb-

naya laboratoriya issledovaniy v oblasti biznes-kommunikatsiy VShE, Assotsiatsiya professional'nykh investorov, 2017] has shown that in many Russian companies it is common to pay quarterly bonuses, which is not usual for the rest of the world. At the same time, the long-term reward system is often absent. According to survey respondents, it is necessary to disclose information on the remuneration of the five most highly paid managers or on the remuneration of each executive body. Also important is the publication of long-term and short-term components of remuneration and the principles of their formation. Another feature of Russian corporate governance is that companies generally do not have a thorough long-term program of management motivation, and managers do not expect to receive bonuses in 2–3 years, when the result of their efforts will become clear, as they do not hope to work so long in companies and are afraid of cheating [Podtserob, 2017].

Interestingly, in 2009, Brazil introduced a new system for disclosing information on the incomes of managers. Up to 2009, Brazil companies were required to provide only general information about their remuneration policy and disclose only the aggregate amount of payments to top managers and directors. Since 2009, companies have become obliged to publish data on minimum, average and maximum remuneration. It should be noted that this innovation was met with strong resistance from companies. Representatives of the Brazilian Institute of Financial Directors (IBEF) stated that disclosure of the maximum amount of compensation will subject the first persons of companies to the risk of criminal attacks and kidnapping. Some companies have been granted permission not to comply with this rule and are still using it [COPPEAD, 2016; ICLG, 2016].

No less interesting is that, despite the recommendations of the revised G20/OECD Principles on increasing transparency of the management remuneration policies, in 2016, India decided to simplify the disclosure of information on remuneration and to abandon the policies under which the compensation of managers would depend on the results [Arora, 2016].

In some Russian state companies, boards work only formally, and key decisions are taken by the main owner – the state – and then “pushed down” to the boards, which automatically approve them [Bank Rossii, 2016c]. According to the G20/OECD Principles of corporate governance, (part VI), “The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board’s accountability to the company and the shareholders.” (...) “In addition, boards are expected to take due regard of, and deal fairly with, other stakeholder interests including those of employees, creditors, customers, suppliers and local communities. Observance of environmental and social standards is relevant in this context” (Ibid.). Thus, in a number of Russian companies international principles are completely ignored.

Moreover, as mentioned above, Russian companies are characterized by high concentration of capital, and key shareholders are often too deeply involved in the process of management, which dilutes the role of the board and makes it merely formal.

Also, many members of the boards are not sufficiently active or are insufficiently competent. Another interesting feature of Russian boards is that, according to PwC data, 33 percent of boards do not assess their performance, and another 51 percent of boards conduct only self-assessment. Independent assessment is conducted only by 29 percent of boards, another 13 percent of boards conduct both self-assessment and independent assessment [Podtserob, 2017]. However, as noted in the G20/OECD Principles of corporate governance, “many countries have moved to recommend, or indeed mandate, self-assessment by boards of their performance as well as performance reviews of individual board members and the Chair and the CEO” (part VI.D.2).

Conclusion

The author has analyzed the implementation of the newly revised G20/OECD Principles of corporate governance in Russia and other BRICS countries as well as in Indonesia. Special attention has been paid to key implementation facts, both formal (introduction of new rules, adoption of new programs, etc.), and real ones (quantitative results of studies and surveys, publicly available expert commentaries). Following the analysis of these facts, conclusions have been drawn about the intensity of Russia’s efforts to implement the revised document, in comparison to the efforts of other developing countries selected for the study.

The last (2015) revision of the principles of corporate governance was generally minor, though it addressed some important issues resulting from the global financial and economic crisis of 2008–2009. Since the revision actively involved several developing countries, implementation of the document in these countries is of particular interest.

Both Russia and other selected for this study countries adopted their corporate governance codes about 15–20 years ago. Later countries renewed the content of these documents several times harmonizing it with the recommendations of the OECD principles; they have also taken effort to implement the provisions both of their codes and of the principles. The Russian corporate governance code was last revised in 2014, and this revision was followed by an active work on its implementation.

The author concludes that Russia, Brazil and Indonesia have been most active in the sphere of formal implementation. These countries have been substantially involved in international discussions on the implementation of the revised document, they have been adopting legislative changes and developing government programs to improve the quality of the corporate governance. India has partially implemented the Principles. Compared to Russia, Brazil and Indonesia, this country lacked initiative and action. China lacked almost any implementation effort at all, though it was quite active in improving corporate governance at the national level in 2006–2014, and it was also actively involved in the implementation of the new G20/OECD principles at the international level in the framework of its G20 presidency in 2016. South Africa demonstrated

no action, except for the revision of the King Report in 2016, which plays the role of corporate governance code in this country.

As to real implementation, Russia, as well as many other countries that were selected for the study, are characterized by a large number of flaws in this sphere. This relates to transparency and information disclosure, gender diversity of the board, the share of independent directors, etc. Quality of corporate governance in some of the largest companies may be extremely poor.

Russia's efforts have been assessed as "substantial implementation." Still, taking into account the deficiency of information on the performance of other countries in English and its absence in Russian, a substantial part of data on the real progress in the corporate governance in Indonesia and BRICS countries except for Russia may be beyond this analysis. However, as follows from this article, Russia is quite active in reforming its system of corporate governance, and real corporate governance environment in all selected for this study countries is not sufficiently friendly.

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Как Россия, другие страны БРИКС и Индонезия реализуют Принципы корпоративного управления «Группы двадцати» / ОЭСР¹

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В статье проведен анализ имплементации Принципов корпоративного управления «Группы двадцати» / ОЭСР Россией в сравнении с другими странами БРИКС и Индонезией. Изначально данный документ был опубликован ОЭСР в 1999 г. Последняя (третья) версия была разработана в 2014–2015 гг. при участии стран «Группы двадцати» и принята в ноябре 2015 г. на саммите «Группы двадцати» в Анталии (Турция). Обновленный документ не претерпел кардинальных изменений по сравнению с предыдущими версиями, однако теперь он включает некоторые новые положения, внедрение которых стало необходимым после глобального финансово-экономического кризиса 2008–2009 гг.

В центре внимания автора находятся действия выбранных для исследования стран по внедрению положений Принципов корпоративного управления «Группы двадцати» / ОЭСР, а также реальные изменения в этих странах. При проведении исследования были учтены рекомендации ОЭСР по оценке имплементации принципов корпоративного управления, в соответствии с которыми исследователям не следует заострять внимание на оценке количественных показателей. Ввиду этого автор делает акцент на качественных методах анализа и на сравнительном анализе. Выявлено, что наибольшую активность в сфере имплементации документа проявили Бразилия, Индонезия и Россия. В ЮАР и Китае наблюдалось отсутствие имплементации, в Индии — частичная имплементация.

Автор отмечает, что в России, несмотря на наличие большого числа свидетельств формального внедрения принципов корпоративного управления в последние годы, реальные улучшения являются незначительными. Это касается раскрытия информации (в том числе данных о доходах менеджеров), гендерного разнообразия советов директоров, повышения доли независимых директоров и т.д. Помимо этого, для российских компаний характерна высокая концентрация капитала, и роль советов директоров в реальности часто является лишь формальной. Тем не менее автор присваивает России оценку «существенная имплементация», в основном за инициативу, а не за результат. Также, согласно выводам статьи, аналогичные проблемы наблюдаются и в других исследованных странах.

Ключевые слова: корпоративное управление; «Группа двадцати»; ОЭСР

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BRICS Investment Policies from PFI Perspective¹

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Abstract

The Organisation for Economic Co-operation and Development (OECD) Policy Framework for Investment (PFI) contains recommendations and best practices in 12 investment-related policy areas, and is widely regarded as the world's most comprehensive and authoritative instrument on international investment regulation. The topicality of PFI recommendations for OECD members and other countries, including Russia, is dictated by competition in international investment markets. The instrument's implementation can significantly boost a national jurisdiction's attractiveness to investors and thus increase its economic competitiveness.

The experience of the BRICS countries as large developing economies involved in collaboration with the OECD could be of great value from the standpoint of PFI implementation in Russia.

This article examines investment policies of Brazil, India, China and South Africa from the perspective of PFI recommendations. The analysis is organized around four major themes: the general characteristics of investment regimes and investment stimuli, national investment regulation regimes, trade policies and overcoming structural limitations. The analysis forms the basis for recommendations to improve the investment policy regime in Russia.

Key words: Policy Framework for Investment; OECD; BRICS; International trade and investment; infrastructure; Human resource development; green growth

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Introduction

Despite the postponement of activities related to the accession process of the Russian Federation to the Organisation for Economic Co-operation and Development (OECD) following the decision of the OECD governing council on 12 March 2014 [OECD, 2014b], accession remains one of the long-term priorities of Russia's foreign policy. According to the Initial Memorandum submitted to the OECD in June 2009,

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Russia made several commitments to implement the norms, standards and instruments of the Organisation across 16 policy areas.²

The OECD Policy Framework for Investment (PFI) is a compendium of recommendations and guiding principles on 12 investment-related issue areas, including investment regimes, finance, fiscal policy, trade, competition, human resource development, corporate governance and more. The primary objective of the PFI is to foster the creation of a favourable investment and business environment to provide appropriate conditions for private investment mobilization. PFI recommendations are designed to be implemented by government agencies domestically by fostering a favourable investment climate and business environment, and externally through participation in international investment agreements, development and implementation of international standards, as well as through interaction with other states on countering crime and corruption [OECD, 2015].

The relevance of the PFI for the OECD and other countries, including Russia, is primarily determined by competition in the global investment market. The implementation of PFI provisions, representing best practices in the field of investment policy, can boost the attractiveness of national jurisdictions for FDI thereby increasing the overall competitiveness of any country's economy. China set the adoption of a commonly accepted set of rules for global investment policy as one of the priorities for its G20 chairmanship. As a result, the G20 Guiding Principles for Global Investment Policymaking were approved at the 2016 Hangzhou summit. This document largely reflects the contents of the PFI's "horizontal practices" – the basic principles for implementing investment policy according to the OECD.

An important first stage of the practical implementation of OECD instruments is the analysis of the experience and best practices of other states. The experience of large non-OECD developing economies with implementation of the PFI provisions into their national legislations and law enforcement structures is of particular interest to the Russian Federation.

In order to identify best practices and develop recommendations for their application in Russia this article attempts to undertake a comparative analysis of the investment-related policies of the BRICS across four main issue areas: investment regimes and efforts to promote investment, national regulatory regimes, trade policy measures directly related to investment and BRICS countries' actions aimed at overcoming structural limitations to the investment climate such as inadequate infrastructure development, regional disparities and inequality.³

Given the long-term orientation of the PFI provisions and the occasional updates made to them, the implementation of this instrument should be assessed as an ongoing

² Plan for the legislative work to bring Russian legal framework in line with the OECD standards.

³ A short review in this article is based on the preliminary results of the "Comparative study of BRICS member countries and Indonesia approaches to OECD instruments implementation" study conducted by the RANEPa CIIR in 2017.

process. This article considers country actions that have influenced the evolution of national investment climates in their current state.

PFI Implementation in the BRICS Countries

An independent review of investment policy based on the provisions of the PFI is the first stage of PFI implementation. These reviews represent some of the most comprehensive sources of data on countries' investment environments. Among the economies analyzed in this article, only China and India underwent the review process (in 2008 and 2009 respectively), while Brazil and South Africa have not yet done so. A review on Russia was released in 2008 [OECD, "OECD Investment Policy Reviews," 2009].

Since 2009, the OECD and the United Nations Conference on Trade and Development (UNCTAD) have been monitoring the investment measures of G20 countries. Further, UNCTAD conducts an independent analysis of investment policy in the framework of the Investment Policy Monitor ["Investment Policy Hub," s. a.]. These studies are important sources of information on the investment measures of countries considered in this review. In addition, this study employs data from the BRICS countries' authorities, as well as from independent sources such as the media, business associations, consulting agencies and multinational corporations.

China

In general, the investment policy of China is characterized by a high degree of flexibility, balancing the interests of domestic business and the objective of attracting foreign capital and technology to fuel economic growth.

In many sectors of the economy, persistent and significant restrictions are justified by considerations of national security. According to UNCTAD and OECD investment policy studies, during the monitoring period China adopted six measures directly aimed at ensuring national security. Chinese leadership considers the military industry, large machine and machine tool building, infrastructure and transportation, energy and mineral resources extraction, agriculture and high-tech industries to be the most sensitive, and prohibits any foreign activities in these industries [OECD, 2016].

State control, motivated by the interests of state security, is not weakening. On 1 July 2015, the National Security Law came into force. One of its provisions regulates the establishment of a state oversight mechanism with a mandate to verify the compliance of foreign companies and investors with the national security regulations of the PRC [China Law Translate, 2015].

Although China's investment regime is characterized by a large number of restrictions in comparison with the country's main trading partners, measures to gradually liberalize the investment environment are also being implemented. The monopoly power of state-owned companies is gradually declining as exclusive access to factors of production is being reduced through government efforts to increase effectiveness and transparency [U.S. Department of State, 2015].

On 19 November 2015, the Ministry of Industry and Information Technology of the People's Republic of China issued a decree removing restrictions on foreign ownership of information and communications technology (ICT) companies. On 3 September 2016, the National People's Congress abolished the requirement to obtain approval for the establishment of and changes to foreign invested enterprises by a nation-wide filing system. For investors, the need to obtain approval of the Ministry of Commerce or its regional bodies was lifted except for investment in enterprises from the "black list" [Ministry of Commerce of China, 2016].

In February 2014, the Chinese Ministry of Commerce issued a resolution altering the procedure for considering mergers and acquisitions in relation to enterprises with a relatively low aggregate market share. The implemented rules allow the country's anti-monopoly authorities to apply a simplified procedure for reviewing and resolving such cases [WTO, 2016a].

China's trade and investment policy is regulated within the framework of the five-year plans of the central government, sectoral and regional five-year plans, as well as catalogues of measures containing specific actions to achieve the government-set objectives. The Chinese leadership has repeatedly stated its readiness to continue liberalizing the trade regime in keeping with the principles of the multilateral trading system in the context of the transformation of the country's economy [WTO, 2016a].

Nevertheless, given the specific economic conditions of the PRC and the requirement to minimize structural risks to the country's economy, China retains a strict regulation policy regarding foreign trade and investment activities. Foreign investments are "channeled" by the government to those sectors that, in its opinion, need it the most.

China has been a member of the World Trade Organization (WTO) since 2001. The country cooperates with the WTO on a regular basis, providing notifications, as well as using the appropriate WTO tools to achieve its policy goals. Nevertheless, according to the WTO trade policy review, there were instances when China failed to properly notify the Organization of its actions, especially with respect to updating relevant laws and regulations, creating new regulatory bodies and introducing new procedures [WTO, 2016a].

According to WTO data, between June and October 2016, China did not introduce new protectionist measures [WTO, 2016a]. Nevertheless, the country supports an extensive list of goods subject to various kinds of import restrictions [MOFCOM GACC, 2015]. This catalog is issued annually by the Ministry of Commerce and the Main Customs Administration of China.

The PRC pursues policy aimed at simplifying trade procedures. In 2009, the government launched a pilot program of reforms in this area, which was extended in 2012 to the whole country. Within the framework of this program, enterprises engaged in foreign trade activities were classified into three groups according to the degree of their compliance with the customs regulations: "authorized enterprises," or Authorized Economic Operators (having access to a simplified procedure for customs control),

“enterprises of general integrity” and “dishonest” enterprises (to which strict procedures of customs control apply) [WTO, 2016a].

The goals of overcoming structural limitations, including in the areas of human capital development, infrastructure construction and green growth are the focus of China’s strategic documents on economic and social development. Actions in all these areas are provided for by the 13th Five-Year Plan for 2016–2020 [National Development and Reform Commission, nd]. The Plan provides for appropriate measures aimed at human capital development and “cultivation of talents” in the country. The government plans to take action across six main spheres, including attracting foreign personnel, improving the quality of education, strengthening the links between training of workers and the needs of the labour market.

The large-scale efforts of the Chinese government in the field of infrastructure development, improving both urban and transport and logistics infrastructure throughout the country, lie at the core of the country’s structural reforms policy. The goal of these efforts is, among other things, to overcome the gap in the level of economic development between the eastern and western regions of the country, thus creating more favourable conditions for attracting investment to the latter.

In addition, the 13th Five-Year Plan envisages measures to address the environmental problems facing the country. Specifically, the government aims to increase the rate of energy conservation, improve the quality of water resources, promote the efficient use of land resources and support the development of green technologies in the mining industry.

China pursues an extremely flexible policy in the field of regulating investment activities and achieving a balance between attracting foreign capital and ensuring the interests of domestic business. In addition, an important role is played by restrictions in securitized spheres, such as military security, energy and resource independence and influence on public opinion. In the medium and long term, as the Chinese economy becomes progressively more entangled within global value chains, a gradual and highly flexible liberalization of the country’s investment policy is likely to take place, with certain limitations imposed by the nature of the Chinese political system.

India

Since the early-1990s, India has made significant progress in improving its investment climate. During this period, restrictions on long-term and large-scale investments were substantially relaxed and many sectors of the economy were opened to private sector participation. The government shifted from a policy of import substitution and protectionism to a more liberal market-oriented approach, abandoning sectoral restrictions for foreign investors.

The IPR protection regime, antimonopoly legislation, the tax system, as well as norms and standards of corporate governance have been gradually improved. Combined with efforts to increase human capital, these reforms have a long term positive effect on

the trajectory of the development of the Indian economy. One of the results of the policy was the increase in foreign direct investment (FDI) flows in the pre-crisis period.

At the same time, the country retains structural limitations in the investment sphere, including infrastructure underdevelopment, relatively low capacities in the export industry, insufficient growth in employment rates and regional imbalances [OECD, 2009].

According to UNCTAD research, 61 investment measures have been adopted in India since the beginning of 2010, the largest number among BRICS countries [“Investment Policy Hub,” nd]. The investment regime in India is characterized by a high degree of state regulatory activity. The OECD FDI regulatory restrictiveness index for India is rather high at 0.24 (the OECD average is 0.07) [OECD, 2017a].

There are currently two possible mechanisms for foreign investors in the Indian economy. The first, an automatic route, implies the absence of licensing procedures, while the second, in force for a number of “sensitive” sectors of the economy, requires the approval of the government body – the Foreign Investment Promotion Board. Restrictions on the share of property for foreign investors apply to six areas of the 31 available within the automatic path [Make in India, “Foreign Direct Investment,” s. a.]. Thus, despite the existence of restrictions, the conditions that apply to foreign investors are fairly transparent and predictable.

Since May 2016 the new IPR legislation has been in force in India [Times of India, 2016]. Approved by the cabinet ministers on 13 May 2016, the law provides for full compliance of Indian legislation in this area with the requirements of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), as well as the expansion of the mandate and the acceleration of patent examination [The Hindu, 2016]. In 2015, a new bankruptcy law was adopted that will simplify and speed up the procedure for recognizing financial insolvency [Make in India, “New Initiatives,” s. a.].

Another notable initiative of the Indian government in the field of liberalization of its investment regime is a large-scale plan, adopted in June 2016, to review the policy of regulating foreign direct investment in a wide range of industries, including agriculture and livestock, firearms, telecommunications, civil aviation airports, private security organizations, retail trade and pharmaceuticals. All these sectors saw foreign participation quotas lifted or significantly increased [Government of India, 2016].

Competition policy in India is governed by the Competition Act 2002, further amended in 2007 and 2009. The main regulatory body is the Competition Commission of the Government of India. The Competition Act does not differentiate between private and public enterprises with respect to their rights and obligations in the market. Nevertheless, the Act contains certain exceptions to this rule regarding the exercise of sovereign functions by the state in the areas of national security, energy, currency regulation and space exploration. The Competition Act contains a provision on the mandatory confirmation of any merger and acquisition exceeding the threshold of 10 billion rupees of assets and 30 billion rupees of aggregate assets turnover values by the Competition Commission [2002].

The government of India continues the liberalization the country's trade regime. The WTO characterizes India's trade policy as aimed at ensuring supply in the domestic market, as well as achieving short-term objectives such as containing commodity price volatility. These factors have a negative impact on the predictability of the country's trade policy as they require constant adjustments [WTO, 2013c]. Nevertheless, every five years the Indian government issues a foreign trade policy document containing detailed descriptions of the goals and objectives in the field of trade policy, as well as ways to implement them [Indian Ministry of Commerce and Industry, 2015].

The 2015 edition of this document prioritizes trade facilitation activities. According to the text, the task of the government is to reduce transaction costs, primarily in the interest of increasing the competitiveness of Indian exporters. The main body responsible for the implementation of the country's trade policy is the General Directorate of Foreign Trade of the Ministry of Trade and Industry of India.

Since 2011, India has implemented a self-assessment procedure for customs clearance. About 97.6% of imports pass the procedure using risk management mechanisms [WTO, 2013c]. The results of this work are reflected in the country's rising positions in international rankings. According to the OECD study on trade facilitation indicators, India demonstrates one of the best average scores among the BRICS countries – 1.5. India's regulations on customs procedures simplification and advance rulings are on par with the best practices, according to the OECD. Since 2013, the efficiency of procedures automation has significantly increased, the disciplines on fees and charges has strengthened and positive developments regarding the involvement of the trade community in the decision-making process have taken shape [OECD 2017b].

India's foreign trade policy is also characterized by the existence of many free trade agreements with the country's regional and global partners. To date, India is party to 19 such agreements [Indian Ministry of Commerce and Industry, 2017].

Nevertheless, despite some progress in the field of trade facilitation the import regime remains excessively complicated, mainly due to a complex system for obtaining licenses and permits and an intricate tariff structure with exceptions and variations in rates on different goods. Tariff rates are announced annually in the budget, but individual tariff rates may change during the year [WTO, 2013c].

The government's "Make in India" initiative was launched in September 2014 to address structural limitations to the development of the country's investment environment. This initiative provides for measures across multiple investment-related areas including abolition of permits and restrictions to foreign participation in a number of sectors (including strategic ones), simplification of procedures related to business activities and infrastructure development through the construction of five large-scale "industrial corridors" [Make in India, "New Initiatives," s. a.].

Another group of limiting factors, tied to the insufficient level of human capital development, is especially relevant for India as a country with a population of more than 1.3 billion people. A dedicated Ministry for Human Capital Development exists in India, coordinating government policies primarily in the field of education.

The competence of the Ministry also includes the formulation of the national education policy and its implementation, the planning of the development strategy of the national educational institutions, the expansion of access to educational services especially for disadvantaged groups of citizens, the provision of financial support for education and international cooperation in the profile area [Ministry of Human Resource Development of India, “Overview,” s. a.].

The government of India issues five-year plans on social development. The 12th plan for 2012–2017 provides for a number of initiatives in the field of education aimed at enhancing the country’s scientific, technical and innovative potential. In particular, it was designed to support the development of 20 multidisciplinary research universities to increase their international competitiveness, primarily through strengthening control over their operations and audits of their performance [Ministry of Human Resource Development of India, “Twelfth Five Year Plan,” s. a.]. As a part of this plan’s implementation, the Law on Innovative Research Universities was approved by the government in May 2012 [Legislative Brief, 2013]. In addition, India plans to establish 20 centres of excellence within existing universities and 50 centres for training and research in the advanced fields of science and technology [Ministry of Human Resource Development of India, “Twelfth Five Year Plan,” s. a.].

The liberalization of investment legislation in India continues and is gaining momentum. At the same time, restrictions on foreign capital continue to be maintained in sensitive sectors of the economy, including agriculture, oil refining, commodity trading and insurance [Make in India, “Foreign Direct Investment,” s. a.]. The “Make in India” initiative, if successfully implemented, will significantly improve the country’s position in all investment-related policy areas.

South Africa

The foreign investment regime in South Africa has for a long time been regulated not by a single legislative instrument, but through specific industry regulations. According to the self-assessment report on the investment regime of South Africa issued in 2014 under the auspices of the OECD, the investment regime of the country is characterized as relatively open. The OECD FDI regulatory restrictiveness index for South Africa is the lowest among the BRICS countries and amounts to 0.06 (the average for OECD countries is 0.07) [UNCTAD, “FDI Index,” s. a.]. All sectors of the economy are open to foreign investors; authorization from state authorities is not required. Restrictions, related to the form of ownership or the volume of investment of foreign actors, are minimal. There are no restrictions in place on the ownership of land resources, nor are there requirements for the efficiency of foreign companies [OECD, 2014a].

Additionally, in accordance with WTO rules, South Africa does employ domestic content requirements. However, there is a practice of “non-mandatory” requirements in the country. These requirements create incentives for South African companies to purchase domestic products and are not enshrined in legislation [OECD, 2014a]. Nevertheless, these norms apply equally to both national and foreign investors.

In 2015, the Promotion and Protection of Investment Bill, developed by the Department of Trade and Industry of South Africa, was adopted. On 15 December 2015, the law was approved by the president of South Africa. The stated objectives of the Act are the protection of investments in accordance with the provisions of the constitution of the country while ensuring the balance of the interests of the state against the rights and obligations of investors and the confirmation of sovereign rights of South Africa regarding regulation of investments to ensure national interests [Government of South Africa, 2015].

In fact, the Investment Protection Act of 2015 established the right of the state to impose certain restrictions and expropriate the property of investors, if deemed necessary for reasons of national interest. Several representatives of the international business community, including members of the American Chamber of Commerce in South Africa, expressed the view that this legislative act will negatively affect the overall state of the investment climate in the country [Eyewitness News, 2016]. A similar opinion is held by the factions opposing the current leadership of the country in the parliament, in particular the Democratic Alliance [Eyewitness News, 2015].

Nevertheless, the law only confirmed the state's right to ensure regulation, a right that already existed in the South African legislative system according to the constitution. The Investment Protection Act also does not introduce distinctions between national and foreign investors, emphasizing the equality of these groups before the law in full compliance with international standards.

According to the research conducted by the OECD and UNCTAD since 2009 on G20 investment measures for the period from April 2009 to November 2016, South Africa introduced only nine investment policy measures. All of them were aimed at liberalizing the investment regime for foreign actors.

On 25 October 2011, it was announced that restrictions on foreign ownership of companies operating in the foreign exchange market were lifted. Measures to stimulate investment activity were also adopted in February 2013 within the "Gateway to Africa" program. Companies listed on the Johannesburg Stock Exchange acquired the right to establish an additional subsidiary company within the country without restrictions [South African Reserve Bank, 2011].

In May 2011, the Companies Act came into force. The act was aimed at improving and modernizing the company registration system, as well as assisting enterprises in distress [Government of South Africa, 2011].

Currently foreign investment in South Africa can be carried out without restrictions through companies registered in the country, as well as through the creation of a subsidiary structure. External investments are almost equal in all respects to internal ones. The most significant difference concerns borrowing from local sources – foreign investors are limited in the amount of borrowed funds. Loans to enterprises with more than 75% foreign ownership must pass the approval procedure in the Financial Surveillance Department [OECD, 2014a].

The competition policy of South Africa is regulated in accordance with the Competition Act of 1998 [Competition Commission of South Africa, s. a.]. The main govern-

ment bodies responsible for conducting antimonopoly policy are the Competition Commission, the Competition Tribunal and the Competition Appeal Court.

The provisions of the 1998 Competition Act apply to both private and public actors in all sectors of the economy. At the same time, the Competition Commission has the authority to make exceptions in a number of cases, including exports promotion, promotion of small and medium enterprises (SMEs), fostering development of historically disadvantaged social groups and regions of the country and “saving” certain industries or the ensuring their stability [WTO, 2013b]. In 2013 amendments to the law on competition entered into force, introducing criminal penalties for directors and managers involved in cartel collusion [South African Government, s. a.].

South Africa is a member of the South African Customs Union established in 1910. Currently in force is the 2002 Southern African Customs Union (SACU) Agreement (entered into force on 15 July 2004) [SACU, 2017]. According to the provisions of the agreement, the members of the Union (South Africa, Namibia, Botswana, Lesotho and Swaziland) pursue a common trade policy. Customs tariffs, duties and charges, deductions, procedures for determining customs value, rules of origin and trade protection measures are harmonized between all member states. There is a free trade zone within the Union with some reservations related to health and animal protection, the environment, objects of art, intellectual property rights, national security and exhaustible natural resources [SACU, 2012].

South Africa and the South African Customs Union as a whole are carrying out efforts to harmonize customs regulations and associated procedures and requirements. Each country of the Union, pursuant to the Article 22 of the 2002 Agreement, ensures the consistency of the relevant legislation and has brought their legislation in line with the Customs and Excise Act of South Africa.

In 2009, the effort to modernize customs administration was launched to harmonize and improve the efficiency of the customs policies of Union member countries in accordance with international requirements and standards. As a result, customs policy reform was implemented in the application of risk-management practices, trade partnerships, standardization of operational procedures, application of ICT and harmonization of legislation.

In 2011, the council of ministers of the Union approved the Regional Customs Policy Document which defined the common strategic objectives of the trade policy of the association: trade facilitation, protecting the interests of member countries in fiscal policy by obtaining accurate data on trade flows and ensuring the security of the member countries’ populations.

South Africa’s performance as measured by OECD trade facilitation indicators testifies to the high efficiency of measures implemented by the country’s leadership. The average score of South Africa is the highest among the BRICS countries – 1.7. On such indicators as international cooperation of customs agencies, governance and impartiality, information availability, efficiency of customs procedures, advance rulings and appeals procedures, the results of South Africa are on par with the best world practices and exceed the average result of the top quartile of countries [OECD 2017b].

The mere fact that South Africa has passed the procedure of self-assessment of the investment regime for compliance with the provisions of the OECD Liberalization Codes shows the country's willingness to improve its investment environment. South Africa was the only BRICS country that issued a self-assessment report.

In general, the legislation and law enforcement practices of South Africa are consistent with the provisions of the PFI.

Brazil

Brazil's investment regime is characterized by relative openness to foreign capital. The OECD FDI regulatory *restrictiveness* index for Brazil amounts to 0.10 (the average for OECD countries is 0.07) [UNCTAD, "FDI Index," s. a.]. Among the countries reviewed in this article, it is second only to South Africa (0.06).

The relatively favourable conditions for attracting foreign capital in Brazil are determined by the country's need for foreign investment to strengthen its technological capacity and foster the development of the northern and north-eastern regions. In 2015, the government of Brazil announced the priority of attracting investments in infrastructure development. The ongoing development program for transport and logistics infrastructure aims to attract investments in roads, ports, airports, energy and urban infrastructure [U.S. Department of State, 2015]. All these sectors are open to the participation of foreign capital. However, Brazil experiences difficulty attracting investment due to the ongoing economic and political crisis.

Regional authorities provide foreign investors with tax credits and deductions. Regional initiatives in this area should be coordinated with the federal authorities, namely, the SUDAM and SUDENE agencies involved in regional development [PWC, 2013].

Despite the generally liberal stance of the government towards foreign investors, in recent years several measures have been adopted to strengthen state control over investment activities and impose certain restrictions on foreign capital. According to UNCTAD, between April 2009 and November 2016 Brazil adopted 21 investment measures. Four were aimed directly at the regulation of FDI while the remaining 16 dealt with other investment-related industries.

On 19 October 2009, Brazil introduced a 2% fee for short-term portfolio investments made by nonresidents. This measure, according to the minister of finance, was designed to reduce the uncontrolled influx of foreign capital which could lead to the emergence of price bubbles in the Brazilian economy [OECD, WTO and UNCTAD, 2010]. On 23 August 2010, a restriction on the sale of agricultural land to foreign investors and to any enterprises with a share of foreign participation of more than 50% came into effect [UNCTAD, 2010b].

In April 2011, the Brazilian government adopted a resolution introducing restrictions on foreign participation in companies providing secondary insurance services [The Economist Intelligence Unit, 2011]. This measure was negatively received by the international coalition of associations of reinsurers, who demanded its abolition [BNA, 2011]. There is also a restriction in place on the ownership of land in the 150-kilometer

border zone of the country. Foreign actors wishing to purchase land in this zone must receive a special permit from the National Security Council. Also, according to the set of rules adopted in August 2013, the territory owned by foreigners should not exceed 25% of the total area of the municipal district [U.S. Department of State, 2015].

During UNCTAD's monitoring period, Brazil carried out efforts to liberalize investment legislation. One such measure was the decision to raise the quota for foreign participation in the capital of the Bank of Brazil (the state bank) from 12.5% to 20% in September 2009 [UNCTAD, 2010a].

Since 2009, Brazil has conducted a nation-wide program to support investment – Programa de Sustentação do Investimento (PSI). The program is aimed at assisting investors, including foreign ones, in the development and implementation of innovative technologies in the country. Also, within the framework of this initiative there is a subprogram focused on stimulating small and medium enterprises [Finep, s. a.].

On 13 September 2011, a previously existing 49% restriction on foreign ownership in telecommunications and broadcasting enterprises was lifted. On 25 February 2014, a law was signed which gave the status of resident companies to enterprises with foreign participation that had purchased land plots in the country in 1994–2010 [U.S. Department of State, 2015].

On 1 March 2016, the Brazilian government issued Provisional Measure No. 714, easing restrictions on foreign capital in Brazilian airlines by raising the foreign participation quota from 20% to 49% [UNCTAD, 2016]. Nevertheless, on 25 June 2016 Brazilian President Michel Temer vetoed a law that could finally abolish all existing restrictions in this area.

On 13 September 2016, the government announced the Investment Partnership Program to expand and strengthen the links between public and private investment activities. The main goal was to create jobs and ensure the country's economic growth through new investments in infrastructure and large-scale privatization. This program was also designed to strengthen legal security, regulatory stability and enhanced management [Palácio do Planalto Presidência da República, 2016].

On 16 October 2016, at the BRICS Business Council, President Michel Temer urged members to invest in Brazil. In his speech, he listed the measures taken by the federal government to improve the business environment – reducing bureaucratic procedures and operating expenses, as well as ensuring predictability and legal certainty. According to Mr. Temer, the provisions of the Investment Partnership Program as approved by the senate create investment opportunities in 34 initial projects in such areas as seaports, airports, highways, railways, energy, oil and gas. Investment in these sectors will also create new jobs and increase economic growth [Palácio do Planalto Presidência da República, 2016].

On 4 November 2016, Secretary for Planning and Economic Affairs Marcos Ferrari stressed the importance of fiscal reform to overcoming the economic crisis. In his opinion, fiscal adjustment is bound to stabilize the macroeconomic environment, bringing it in line with investors' expectations thus restoring economic growth through

rejuvenated investment flows and the creation of jobs and income growth. Mr. Ferrari stressed the need for pension reform and the approval and implementation of a new tax regime which would create conditions for financial stabilization to attract investment [Portal Brasil, 2016].

The main legislative act regulating competition in Brazil is Law No. 12,529 of 30 November 2011, which came into force on 29 May 2012. This law determines the powers and structure of the state authorities responsible for governance in the antimonopoly sphere. According to the text of the law, the Administrative Council for Economic Protection (CADE) is engaged in the investigation of anticompetitive behaviour and has control over mergers and acquisitions and administrative decisions. In addition, CADE carries out educational activities on these issues [CADE, nd].

The Brazilian government retains control over a significant number of enterprises in such areas as electricity, hydrocarbon production, port services, financial services, transport and health. In 2010, according to the data provided by the government there were 122 enterprises under state control in the country [WTO, 2013a]. As of 1 March 2017, according to the Ministry of Planning, Budget and Administration, the list of state enterprises included 80 companies [Ministerio do planejamento Desenvolvimento e Gestao, 2017].

The public procurement system in Brazil is decentralized, significantly complicating information collection and government reporting on the aggregate volume of procurements. Monitoring of state procurement is carried out by the Ministry of Planning through the Integrated System for Administration of Public Services (SIASG). The main legislative act regulating the system of public procurement in the country is Law No. 8,666 of 1993 and its supplementary Law No. 12,349 of 2010. The procedure is carried out on a tender basis. The preferential treatment of all Brazilian enterprises was abolished by the Constitutional Amendment No. 6 in 1995 [WTO, 2013a].

In 2010, the Brazilian government strengthened the regime of preferences for national enterprises. National producers are given preferential incentives of up to 25% for tenders at the federal level. This step was pursuant to the goal of promoting the sustainable development of the Brazilian economy in accordance with Plano Brasil Maior. Further tightening of the regime of preferences of national enterprises in the field of ICT took place in 2014 [Global Trade Alert, 2015].

In 2011, Brazil underwent the assessment of government procurement practices according to the OECD Public Integrity Review. The OECD appreciated the progress made by the country in improving transparency and applying the risk-based approach. At the same time, it noted the need to increase the level of professionalism among employees of relevant government agencies, as well as the development of performance indicators [OECD, 2012]. Similar conclusions were made by the authors of the 2010 World Bank study of the Brazilian government procurement system, who noted shortcomings in the area of appeal mechanisms [World Bank, 2010].

According to the World Trade Organization report on Brazil's trade policy, the country's policy is consistent with the governing principles of the multilateral trading

system. Brazil actively uses the WTO dispute settlement mechanisms – in 2008–2012 the country initiated three complaints [WTO, 2013a]. One of the priority tasks of the country's foreign trade policy is the advancement of regional economic integration, including within the framework of MERCOSUR. In addition, the free trade agreement between MERCOSUR and the European Union is under negotiation. The EU is Brazil's largest trading partner, accounting for 19.6% of the country's total trade [European Commission, 2017].

In 2007–2012, the government took several steps to simplify trade procedures. Brazil's score in the OECD trade facilitation indicators study amounts to 1.5 (the average for the BRICS countries is 1.46). Brazil's performance comes closest to international best practices in the areas of border agencies cooperation, governance and impartiality and information availability. According to the study, in 2012–2015 Brazil enhanced its performance on automation of customs procedures and minimizing formal requirements. In 2016, the "single window" system was implemented. The government announced a goal to shorten the time for customs procedures from 17 to 10 days by 2017.

At the same time, the study showed lack of progress or even setbacks for several other indicators. In particular, Brazil's scores for appeal procedures, the availability of information and the number of required documents deteriorated compared to 2012 [OECD 2017b].

In 2016, Brazil made efforts to stimulate imports, especially in innovative sectors, and reduced import tariffs in information technologies and telecommunications sectors [WTO, 2016].

Brazil uses protectionist measures as a tool to protect the domestic market. In 2016 the government raised tariffs for a number of goods, including fatty acids (1 July 2016) and individual names of silicates (from 20 July 2016).

Despite somewhat uneven performance, Brazil's trade policy can be characterized as generally consistent with the principles of the WTO multilateral trading system and the recommendations of the PFI, as evidenced by the government's continued efforts to promote trade facilitation and liberalization of the trade regime.

The policy of the Brazilian government in the field of regulation of the investment environment can be assessed as liberal. Since 1995, a constitutional amendment stipulates the absence of fundamental legal differences between Brazilian and foreign companies. The remaining restrictions are primarily connected with the need to ensure state security and market stability, which is typical for many countries, including OECD members.

Comparative Analysis of the BRICS Countries' Approaches to the Implementation of the PFI

The results of BRICS investment policy monitoring across four issue areas (investment regimes and efforts to promote investment, national regulatory regimes, trade policy measures directly related to investment, and overcoming structural constraints)

indicate the presence of several factors impeding the full implementation of PFI by the BRICS countries.

First, the need to protect emerging market economies necessitates the allotment of preferential advantages to national, including state-owned, companies and investors in domestic markets in all the examined countries.

The second factor is the strong influence of national security considerations, often cited as an argument in favour of maintaining the closed nature of strategically important sectors of the economy. It is worth noting that this is characteristic not only of the BRICS, but also of many other countries, including developed ones.

The third category of factors affecting the investment climate of national jurisdictions and the degree to which the PFI provisions are implemented are closely tied to structural limitations, such as the level of infrastructure development, the quality and quantity of human capital and environmental sustainability affected by PFI 2015 under the “Green Growth Investment Framework” [OECD, 2015].

Based on the results of the monitoring of the BRICS countries’ investment policies in 2009–2017, a number of conclusions regarding the compliance of the implemented policy with the provisions of the OECD Policy Framework for Investment can be made.

Given the long-term trends in the evolution of the investment environment, steady progress in each of the countries analyzed in this article can be observed. Compared to the first half of the 1990s, which served as the starting point for many studies and reviews of investment policy, the BRICS countries were able to both largely liberalize the legislative framework and ensure greater transparency and predictability of law enforcement practices in the field of investment. As the BRICS countries were integrated into the global economy they gradually shifted from protectionism to liberal market policies, abolishing sectoral restrictions to investors, including foreign ones.

The investment policies of South Africa and Brazil are to a large degree in line with the basic principles and recommendations of the PFI. The FDI regulatory restrictiveness index for these countries is on par with the average level of the OECD countries (0.07). These states ensure the equal status of foreign and national investors and enterprises. The existing restrictions are, as a rule, related to the need to ensure national security and, in the case of Brazil may be caused by economic crisis and political instability.

At the same time, the FDI regulatory restrictiveness index scores for India and China have significantly exceeded the average for OECD countries. Unpredictability and lack of transparency of regulatory requirements are some of the most serious obstacles to investment. Despite the significant progress achieved in this area by all the states under consideration, unfavourable conditions remain in a number of sectors in their economies. This trend may be partly related to the consequences of the global financial and economic crisis, as well as the adaptation of the BRICS countries to a new growth model and, as a consequence, the focus on supporting national enterprises and state companies to the detriment of foreign businesses.

In this regard, the important role of national security considerations and domestic political stability in the investment policy of the BRICS countries should be highlighted. This trend is particularly relevant for China, which has a much broader list of economic sectors closed to foreign capital compared to other countries under consideration, including military industry, energy, information and communication and the mass media.

Another important limitation for the investment environments of the BRICS countries is underdeveloped infrastructure. To some extent, this problem is typical for each of the states in question. The mobilization of private sector funds, including foreign investors, to modernize infrastructure seems to be the clearest response to this challenge. The policy of attracting investments in the development of the northern territories conducted by Brazil, as well as large-scale infrastructure projects implemented in India and China, are the most vivid examples of an approach to resolving infrastructure bottlenecks that take business interests into account.

Given the large number of investment-related aspects and policy areas, the BRICS states employ an integrated and complex approach to the implementation of public policy aimed at improving investment conditions. One example that clearly corresponds to PFI recommendations is the “Make in India” initiative, which involves the liberalization of industries such as defense, civil aviation, television broadcasting, banking, construction, pharmaceuticals, agriculture and others. Another example is a comprehensive policy aimed at increasing the attractiveness of the investment environment pursued by the South African Republic. The experience of South Africa in integrating measures to overcome the structural limitations of the national investment environment (development of education, combating inequality, ensuring green growth) in the country’s socioeconomic development plans, as well as close interaction with the business community and civil society (Green Economy Accord), fully reflects the recommendations of PFI to ensure that a wide range of interests are taken into account in areas related to investment activities in the framework of national concept papers and development programs.

The protection of intellectual property rights also holds a prominent place among the provisions of the OECD Policy Framework for Investment. The problems in this area mainly concern law enforcement practices. For example, there is an inconsistency in the sentencing of cases involving violations of intellectual property rights in China. In this regard, even measures such as the revision of relevant legislation in accordance with the requirements of TRIPS undertaken by India may not fully eliminate the existing shortcomings in law enforcement practices.

An important element of transparency and predictability of the investment environment is government activity aimed at informing foreign investors of the existing regulatory requirements and other features of the investment climate. In this context self-reporting, including through the use of the OECD mechanisms, is important. The only state that has undertaken a self-assessment of its investment regime for compliance with the provisions of OECD liberalization codes is South Africa.

Overall, despite significant progress in liberalizing investment regimes over the past 25 years, BRICS countries, especially India and China continue to lag behind some of the best practices reflected in the provisions of the PFI.

Conclusion

As products of the analysis and selection of the best existing practices in the relevant issue areas, OECD mechanisms such as the PFI largely reflect current trends in the development of legislation and law enforcement practices. Thus, many PFI recommendations can, to varying degrees, be implemented regardless of participation in OECD initiatives to improve the quality of management and the business environment or to promote the competitiveness and investment attractiveness of economies. Based on the analysis of the investment policies of the BRICS countries, recommendations to improve national legislation and law enforcement practice in the Russian Federation can be made.

First, it is necessary to become involved in the OECD collaboration process to update the potential future edition of the PFI, whether through mechanisms provided for within the Organisation or through other multilateral institutions such as the G20. In this regard, it is also necessary to develop cooperation within BRICS in order to determine a common position on possible future changes to the PFI or other potential instruments in the investment field. It is possible to use the G20 platform to specify the provisions and elevate the status of the G20 Guiding Principles for Global Investment Policymaking, perhaps with the ultimate goal of its eventual convergence with the PFI. Preliminary work on this is already under way in Russia.

From the point of view of implementing the provisions of OECD instruments, including the PFI, at the national level, this analysis concludes with the following recommendations:

First, the practice of participating in OECD self-reporting mechanisms on national legislation and law enforcement compliance with the provisions of the PFI should be resumed. Second, the simplification of business and investment-related procedures, reduction of accompanying costs and minimization of formal requirements to investors, including foreign ones, should be continued. Third, awareness of the Russian and foreign business community about measures to liberalize the investment environment should be promoted. Fourth, the coherence of measures taken in various investment-related sectors from the development of human capital and the promotion of SMEs to trade and competition policies should be ensured.

A complex approach to implementing the provisions of the OECD Policy Framework for Investment, aligned with the interests of the business community and civil society and taking account of national circumstances, will allow Russia to increase the competitiveness of its economy and attractiveness of its jurisdiction to foreign investors. Ultimately, this will contribute to the stated goals of the Russia's economic and social development.

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Инвестиционная политика стран БРИКС через призму Рамочной концепции в области инвестиций ОЭСР¹

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Рамочная концепция в области инвестиций (РКИ) ОЭСР, представляющая собой комплекс рекомендаций и наилучших практик в 12 направлениях государственной политики, влияющих на формирование инвестиционного климата в стране, на сегодняшний день является наиболее полным и авторитетным международным инструментом в сфере международных инвестиций. Актуальность положений РКИ для государств ОЭСР и других стран, в том числе и России, обусловлена нарастающей конкуренцией на мировом инвестиционном рынке. Реализация положений Концепции способна значительно повысить привлекательность национальной юрисдикции с точки зрения привлечения прямых иностранных инвестиций, повышая, таким образом, общий уровень конкурентоспособности экономики страны.

Опыт крупных развивающихся стран, партнеров России по БРИКС, не являющихся членами Организации, но находящихся с ней в тесном взаимодействии, в том числе через процессы выработки и согласования обновленной версии документа, представляет интерес с точки зрения работы по реализации положений РКИ в Российской Федерации.

В рамках настоящей статьи инвестиционная политика Бразилии, Индии, Китая и ЮАР рассматривается через призму положений Концепции, сгруппированных по четырем основным направлениям: общие характеристики инвестиционного режима и содействие инвестициям, национальный режим регулирования в области инвестиций, торговая политика, преодоление структурных ограничений. По итогам анализа предлагается ряд рекомендаций по совершенствованию инвестиционной среды в России.

Ключевые слова: Рамочная концепция в области инвестиций; ОЭСР; БРИКС; международная торговля; инвестиции; инфраструктура; развитие человеческого капитала; «зеленый» рост

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EU Relations with the BRICS: Strategic Partnership or Structural Disjunction?¹

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Abstract

The international system is characterized by increasingly interdependent and asymmetrical relations between the constellations of actors that compose it. While the state remains a central reference in international relations, multilevel and multidimensional relationships make the system very complex. The state, international organizations, non-state actors, club diplomacy and groups of states (e.g., the Group of 20 [G20] and the BRICS grouping of Brazil, Russia, India, China and South Africa) all contribute to this complexity and make the global governance system increasingly multifaceted. In this context, this article examines the relationship between the European Union and the BRICS – two very different actors, pursuing formal and informal integration processes, respectively – and assesses the possibilities and limits of cooperation. This article seeks to understand whether the EU – BRICS relationship reflects a strategic partnership or a structural disjuncture. It starts by discussing multilateralism as a cooperation-oriented but sometimes interest-driven tool in a diverse and multilevel governance system. It then analyses EU – BRICS relations, identifying the main drivers and highlighting how the complex context both facilitates and hinders the constitution of this relationship. The article concludes that the EU – BRICS relationship is informed by asymmetries and ambivalence that reflect their different sizes, capacities and approaches. Moreover, although there is a shared understanding that cooperation might be beneficial, contradictory rules and perspectives on the international order mean this potentially positive relationship is nevertheless embedded in fundamental structural constraints.

Key words: European Union; BRICS; global governance; multilateralism; norms

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Introduction

The international system is characterized by increasingly interdependent and asymmetrical relations among the constellations of actors that it is composed of. Although the state remains a central reference in international relations, multilevel and multi-dimensional relationships make the system very complex. The state, international organizations, non-state actors, club diplomacy and groups of states (e.g., the Group of 20 [G20] and the BRICS grouping of Brazil, Russia, India, China and South Africa) all contribute to this complexity. Their activities might have transnational or intra-state dimensions, resulting in a web of relations that makes the global governance system increasingly multifaceted. In this context, this article examines the relationship between the European Union and the BRICS – two very different actors, pursuing formal and informal integration processes, respectively – and assesses the possibilities and limits of cooperation. This article seeks to understand whether the EU – BRICS relationship reflects a strategic partnership or a structural disjuncture. The article starts by discussing multilateralism as a cooperation-oriented but sometimes interest-driven tool in a diverse and multilevel governance system. It then analyzes EU – BRICS relations, identifying the main drivers and highlighting how global complexity both facilitates and hinders the constitution of this relationship. The article concludes that the EU – BRICS relationship is informed by asymmetries and ambivalence that reflect their different sizes, capacities and approaches. Moreover, although there is a shared understanding that cooperation might be beneficial, contradictory rules and perspectives on international order mean this potentially positive relationship is nevertheless embedded in fundamental structural constraints.

Multilateralism and Global Governance in an Increasingly Asymmetrical International System

As a core concept of international relations, the assertion that state sovereignty is the defining feature of the international system has become increasingly difficult to maintain. New configurations of power resulting from a multi-layered global governance system challenge the notion that the state is the most relevant unit in the system, even while these new configurations may work to bolster state power. This results in ambiguity: global governance defined by multilateralism creates space for collective action, but may also empower individual actions through collective means. Multilateralism “refers to all arrangements wherein three or more states act in concert... Acting multilaterally is perceived to have a value. This value is derived from the appearance of an inclusive, collective, even consensual approach to international action” [Wilkinson, 2015, p. 548]. This is in line with John Ruggie’s view of multilateralism as a collectively shared endeavour and reciprocal gains obtained from collaborative action [cited in Wilkinson, 2015, p. 550]. However, while multilateralism may imply convergence it may also reflect an exclusionary dynamic when states refrain from supporting collective action

that they determine to be against their interests (e.g., in the context of alignments for voting and the use of veto power at the United Nations Security Council). Herein lies the ambiguity inherent to the functioning of multilateral institutions; on the one hand, inclusiveness and collective sharing are implied, but on the other, exclusion and under-representation tend to operate as well.

Wilkinson recognizes this, noting that “those multilateral institutions created in the post-World War Two era have been fashioned in such a way that they have tended to assist in the preservation of the United States’ pre-eminent role rather than contributed to its dilution” [Wilkinson, 2015, p. 550]. This means, following Nicholas Onuf [1989, p. 261] that most “institutions are bounded by a number of rules. At choice then is not just to follow a rule, but which one, to what extent, and so on.” Combined, these observations highlight two main issues. First, the fact that the main rules in the international system were established after World War II means that they are imprinted with the dominant western liberal perspective. Second, because the ensemble of rules that maps action within a given institution leaves room for divergent interpretations, what might be described as out-of-scope action becomes possible. The principle of the responsibility to protect within the United Nations is an interesting illustration of this issue. The locus of its application is defined in a set of rules that have become elastic in their interpretation and used to legitimize interventions in differentiated contexts and by different actors. This elasticity illustrates Onuf’s point about how and to what extent international actors follow certain rules. This complicates multilateralism in structures of global governance.

In global terms,

governance is usually linked to the exercise of state sovereignty. However, in an increasingly globalized world, states are bound together by a web of multilateral and bilateral agreements that create mutual binding obligations and place governments under greater scrutiny... It is manifest in the growth of regional trade blocs that cooperate in such areas as trade and the elaboration of common legal frameworks. It is also observed in the power of intergovernmental institutions and in the spread of multinational corporations... Globalization has profound implications for governance, including the erosion of state sovereignty as transnational bodies increasingly mediate national concerns and press for universal laws [Griffiths, 2005, p. 347].

The EU and the BRICS are part of this multi-layered governance structure through the institutionalization of their procedures as well as the establishment of both bilateral and multilateral relations among and between them, and with other actors in the system. International norms, which form the basis for international relations, simultaneously guide action that promotes cooperation – as the very nature of the concept of multilateralism tries to embed and project – justify actions that do not elegantly fit international rules but that, due to different interpretations, might jeopardise this more benign interpretation of multilateralism. One of the most relevant international rules in this regard, and in global governance overall, is the fundamental rule of state sovereignty and non-intervention versus the right to self-determination and protection

of minorities. Much has been written about the clash of norms implied by these two fundamental principles enshrined in the UN Charter, which leads to competing interpretations of their implementation.

With regard to EU – BRICS relations, the driving norms-taking and norms-making dynamics are not as different as might be expected [on norms taking and norms making, see Checkel, 1999]. In fact, these entail visible cooperative and competitive approaches both within and between the EU and the BRICS. Which norms are taken up? Which are ignored or misinterpreted? These questions are important because differences are revealed in the way these relationships are conceptualized based on fundamental ideas such as sovereignty, the principle of international intervention, security promotion and international order, and in how they are articulated through discourse and practice. Significantly, these differences explain the absence of strategic partnership between the EU and the BRICS. Similarly, discourses and practices of the EU and the BRICS have served different purposes in the interpretation and projection of these concepts in multilateral relations. The discursive strategy of naming the “other” as the “enemy” or as the “partner,” for example, works to legitimize actions and reactions independently of a real, constructed or perceived threat or gain, and provides space for both socialization and resistance. The narrative of “self/other” feeds into the discourse of inclusion/exclusion/not totally in or out, as it is pursued both in the EU (and the West more broadly) and the BRICS [Neumann, 1995, 2006].

These narratives inform notions of an alternative to the western hegemonic order, producing tense relations and images of “otherness” that perpetuate the logic of exclusion/inclusion. This implies that the relations between the EU and the BRICS will remain complicated by the dual weight of the politics of confrontation and cooperation because the image each has of the “other” is informed by their different understandings of the principles and norms of international order. These principles are not fully shared by the different actors in the multilevel system of global governance, where multilateral dynamics have been working to balance difference through dialogue and cooperative arrangements, but with limited reach in terms of the constitutive normative interpretation of these same underlining dynamics. This means that the evolution of EU – BRICS relations has been to some extent constrained by this constitutive differential. Progress has been made on practical matters, but cooperation is more difficult when different interpretations of norms are confronted by questions about the legitimacy of normative engagements.

Criticism of the hegemonic western-designed order by the BRICS and the resistance this implies centre on the establishment of a system in which new actors can engage in shaping norms rather than just passively taking norms. However, this is not necessarily a rejection of the western order. Defining itself often as not being anti-western, the BRICS seek a more inclusive and just international order that challenges western neoliberalism’s dominance, while also showing a willingness for integration and recognition as a legitimate actor in this same order. These dynamics of inclusion/exclusion/not-totally-included/not-fully-excluded are present in the discourse and

practices that shape relations between the EU and the BRICS. The politics of resistance and socialization, and the reinterpretation of norms while being both norm takers and norm makers, suggests a new way of understanding the logic shaping this relationship. The self-reinforcing discourse of exclusion feeds into the anti-western discourse that the BRICS is challenging the dominant normative order. However, this politics of resistance framed as anti-western or “with the West” opens up the opportunity for mutual engagement. It also supports multilateralism as a tool that might strike a balance between socialization and resistance practices, eventually translating into a “reset” of relations with this hegemonic “western-other” and its unjust international order.² The next section examines the evolution of EU – BRICS relations in order to provide the framework for a discussion of the possibilities for, and implications of, cooperation and competition in bilateral/multilateral relationships embedded in different interpretations of the international global governance system.

EU – BRICS: The Nature of the Actors

The EU is an international organization with 28 member states, each of which retains decision-making authority in foreign policy, security and defence. This means that, whereas economic agreements follow common agreed-upon rules and procedures, political decisions about international relations and EU engagement with the BRICS are the result of a consensus forged among members regarding a strategic approach. In light of the normative dimension of the socialization/resistance practices noted previously, it is interesting to analyze how the EU’s normative power discourse operates to project stability within and beyond its borders, particularly in its relations along the eastern and southern borders. The creation of a circle of friends in its vicinity is a very clear goal of the EU as stated in the Security Strategy of 2003 and reinforced with the approval of the EU Global Strategy [EU, 2016].³ The rationale for advancing this strategy to frame EU relations reflects the understanding of fundamental changes in the international order and their impact on the EU’s role and position in the global governance structure. In face of the multiple internal and external challenges, including those in neighbouring areas understood as central to the security and stability of the EU itself, the Global Strategy paves the way for enhanced relations with strategic partners, maintaining the constitutive normative principles of the EU while allowing a more flexible reading of these principles in the development of these relationships.

Recognition of the contested nature of the prevailing order is clear in the wording of this EU statement, as is the need to further advance and revise old and new strategic partnerships alike to facilitate a greater say in international matters:

² For further discussion of this normative gap between Russia and the West, see Maria Raquel Freire [2017b].

³ The European Security Strategy (ESS), “A Secure Europe in a Better World,” was adopted by the European Council on 12–13 December 2003. It “provides the conceptual framework for the Common Foreign and Security Policy (CFSP), including what would later become the Common Security and Defence Policy (CSDP). The ESS analyses and defines for the first time the EU’s security environment, identifying key security challenges and subsequent political implications for the EU” [EEAS Strategic Planning, 2003].

While much has been achieved over the last decade, today an arc of instability surrounds the Union. Further afield, we see conflicts in Africa and security tensions in Asia, while climate change and scarce natural resources harbour the risk of more conflict. At the same time, global growth, interdependence and technological progress enable ever more people to escape poverty and live longer, healthier and freer lives. The EU must confront both the challenges and the opportunities that come with its changed environment. We have a responsibility to protect our citizens while promoting our interests and universal values. The very nature of our Union – a construct of intertwined polities – gives us a unique advantage to steer the way in a more complex, more connected, but also more contested world [EU, Undated].

The EU clearly sees establishing strategic partnerships as a fundamental tool of its external relations, consolidating links at different levels including politics, economics, security and cultural matters. Strategic partnerships “represent a mutual recognition of their respective power-status.” [Gratius, 2013, p. 6]. Moreover, by abiding to an agreed-upon set of rules to govern areas defined as priorities for both, strategic partners reinforce the relationship as they seek to maximize gains and opportunities for cooperation. For the EU “Strategic Partnerships have been an important instrument for up-grading the role of the EU and the BRICS at the global stage” [Gratius, 2013, p. 6]. This means a cooperative approach to norm making and norm taking, providing room for negotiation and concessions geared at fostering gains. However, the results from such deepening in relations have been far from substantial. “The EU has not been able to use these partnerships to substantially upgrade its relations with the BRICS countries or to prepare itself for the shifting balance of power to the South and to the Asian-Pacific region” [Keukeleire, Mattlin, Hooijmaaijers et al., 2011, p. 1]. A fundamental goal of the 2016 EU Global Strategy is thus to redesign strategic partnerships to address these difficulties and limitations. The intent is to make the EU more central in the international governance structure, projecting its influence and principles externally.

The 2008 global financial crisis and changes in the global governance system have underscored the fact that the EU’s socialization practices inside and beyond its borders are generating resistance; the Global Strategy advances a pragmatic approach to meet this challenge. The word “partnerships” appears 35 times in the Global Strategy, referring to the relationships the EU has with other international organizations, states, local private/public agencies as well as other informal international arrangements. Interestingly, although all BRICS countries except South Africa are mentioned, the word “BRICS” is not – while the EU has been developing links with the BRICS as a multilateral group, it is at the same time emphasizing bilateral strategic partnerships with these emerging economies. Not unexpectedly, Russia and China receive special attention. Russia is an important partner for geo-political, economic and energy-related reasons, but cooperation has been hampered by the sanctions imposed after the events in Ukraine and by the overall climate of tension in EU – Russia relations. China, with its stable economic growth and increasingly active role in international affairs, is seen as a very important actor with which the EU should engage further.

Some basic data support an interpretation of the EU's approach to external relations as driven by a desire to project itself in an increasingly asymmetrical and diverse international system even while conditions become less favourable. For example, as illustrated in Table 1, global demographic figures show the EU experiencing an accentuated downward trend, while the BRICS countries together are set for considerable growth in this regard (despite Russia's long-term problems with demographic decline).

Table 1. The population in the EU, BRICS and other countries, 1960–2060

	1960 3,018 million people, %	2015 7,350 million people, %	2060 projections 10,184 million people, %
European Union	13.5	6.9	5.1
Brazil		2.8	2.3
China	21.4	18.7	12.5
India	14.9	17.8	17.1
Indonesia	2.9	3.5	3.2
Russia	4		
Other G20 countries	10.8	9.7	7.8
United States	6.2	4.4	4
Rest of the World	26.4	36.1	47.9

Note. Projections for the European Union with 28 members on the basis of main convergence scenario and for non-EU G20 member projections on the basis of medium fertility variant, 2015–2100. 1960 population excludes French overseas departments and territories.

Source: Eurostat [2016, fig 1.1, p. 21].

Demographic issues have been on the political agenda for some time. Western countries, including Russia, face severe population declines, whereas Asian and African countries face the reverse trend of rapid population growth. These trends mean that new groupings like the BRICS represent a growing portion of the total world population, giving increasing weight to their global positioning and reach. Economic indicators are also telling. Table 2 compares the share of world gross domestic product (GDP) between 2004 and 2014, and the contrasts are striking. Proportionate with the declining share of global population, the EU's share of world GDP has become smaller during this period compared to the performance of the BRICS, and in particular that of China.

Trade relations between the EU and the BRICS countries have clearly been increasing as indicated by data regarding international trade in goods by partner from 2004 and 2014. Table 3 summarizes data for EU trade in goods with individual BRICS countries.

Table 2. The share of EU countries, BRICS and other countries in world GDP, 2004–2014

Share of world gross domestic product	2004, %	2014, %
European Union	31.4	23.8
Brazil		3
Canada	2.3	
China	10.7	13.4
India		2.6
Japan	4.5	5.9
Mexico	1.8	
Other G20 countries	10.9 ¹	14.3 ²
United States	28.1	22.2
Rest of the World	10.3	14.8

Notes:

¹ Argentina, Australia, Brazil, India, Indonesia, Korea, Russia, Saudi Arabia, South Africa and Turkey.

² Argentina, Australia, Canada, Indonesia, Korea, Mexico, Russia, Saudi Arabia, South Africa and Turkey.

Source: Eurostat [2016, fig. 6.1, p. 79].

Table 3. EU trade in goods with individual BRICS countries, 2004–2014

European Union trade in goods (billion euro)	2004 imports from partner	2004 exports to partner	2014 imports from partner	2014 exports to partner
Brazil	21.8	14.2	9.2	29.6
China	48.4	129.2	302.1	164.6
India	16.4	17.2	37.1	35.6
Russia	84.9	46.1	182.4	103.2
South Africa	15.8	16.1	18.5	23.3
Total	187.3	222.8	549.3	356.3

Source: Eurostat [2016, fig. 7.4, p. 94].

While not exhaustive, these numbers provide the context for the fundamental goal of the EU's Global Strategy – namely, the need to position itself better internationally. This is to be pursued through different means, including strengthening strategic partnerships with traditional partners, such as the United States and Japan, and also with the emerging economies. “Even though the Strategic Partnerships are a too heterogeneous concept for defining relations with the EU's special ten, they reflect the political will of the EU to be part of the new global game... The EU is also repositioning itself towards non-traditional partners” [Gratius, 2013, p. 2]. This not only signals recogni-

tion that these states are increasingly relevant in the global governance system, but also that, in the context of challenges to the dominant international order, the EU seems to lack the resources and political will to become an attractive alternative.

A clear illustration presented itself during summer 2015. When the EU found itself in a predicament over what to do with a recalcitrant and economically broke Greece, the BRICS heads of state and government held their 7th summit in Ufa (Russia), inaugurating a New Development Bank and a Contingent Reserve Arrangement (CRA). The contrast could hardly be sharper: where the EU's institutions are under pressure, the BRICS are steadily developing their own institutions; where the EU's mistaken policies are eroding its image, the BRICS offer an ambitious 'Roadmap to 2025' as part of China's gargantuan New Silk Road initiative [van Ham, 2015].

This differential in dynamism is very clear, as is the way it affects socialization and resistance practices. It reflects the EU's diminished presence in the overall global governance system and efforts to regain centrality (as indicated in the Global Strategy). Additionally, it shows that the development of relations with the BRICS still lacks substance, with multilateralism losing ground to bilateral relations between individual BRICS countries and the EU. The special configuration of the BRICS club diplomacy and of its member states clearly plays a role here.

The BRICS members have been described as emerging economies pursuing club politics or network diplomacy. This group of heterogeneous, non-contiguous states bases its decisions on consensus, conferring priority to the sovereignty and autonomous decision-making capacity of states on an equal footing. The main impetus to establish the BRICS was economic, bringing together states whose economic performance and potential warranted the new label of "emerging economy" or "rising power." This common denominator, to the surprise of many, made possible a common agenda defined by shared concerns and goals, including the possibility of political alignment. In fact, plans for an alternative to the western neoliberal international order have quickly become the basis for engagement between these disparate countries. At the first meeting of the group in 2009 (prior to the inclusion of South Africa), the establishment of "a more democratic and just multi-polar order based on the rule of international law, equality, mutual respect, cooperation, coordinated action, and collective decision-making of all states" was a clearly stated goal [BRIC, 2009].

The agenda that followed has highlighted these principles as differentiating the group's global reach in international politics. The mobilization of resources through institutionalized mechanisms such as the New Development Bank (NDB) in support of projects to promote sustainable development and growth in developing countries complements the efforts of financial and multilateral regional institutions on global growth [BRICS, 2014]. This illustrates the autonomous capacity of the group to take new initiatives to clearly set the agenda [Cooper, 2016, p. 110]. The BRICS has become a norm maker and is repositioning itself as an influential actor in the governance system. As John Kirton and Marina Larionova [2012, p. 9] argue, summit declarations

clearly demonstrate that the agenda has been continuously growing with new issues included every year: the group “has evolved its global governance functions, moving from its focus on deliberation to direction-setting, decision-making, delivery and the development of BRICS governance institutions.”

The BRICS has been widening its agenda to include “new challenges related to inequalities, politics of protectionism, isolationism, absence of confidence,” according to Svetlana Lukash.⁴ This provides for a more balanced and democratic order with the fundamental goal of growth, rather than being a substitution for other international organizations. This idea of complementarity has been underlined in different instances. Pavel Knyazev [2016] notes that the BRICS plays a leading role and sets an example: “The political agendas of the BRICS states may not coincide at times, but in the philosophy of the BRICS there is nothing anti-, the BRICS are always a pro- and not a contra-. This does not mean however that there is not a ‘goal of geopolitics counterbalance’, which to the group’s understanding is necessary to confer more justice to the international order.” This positioning has allowed the change from “a liberal-unilateral to a developmental-multipolar set of social claims” [Mielniczuk, 2013, p. 1087]. However, this commitment to a more just order does not necessarily imply the demise of the West or the replacement of western-led institutions, with which BRICS countries have been working, and want to continue working [Freire, 2017a]. In this regard, the tension between the dynamics of socialization and resistance is clear – the role of the BRICS is limited in the sense that it is challenging the international order from which it has emerged and in which it continues to benefit.

This desire to promote an alternative order without directly confronting the existing one creates potential obstacles for the BRICS. However, this alternative order does not need to be fundamentally different as long as it is more inclusive and provides better opportunities for less-favoured actors. This points to a “hybrid order” that allows global integration and a differentiated approach to relations that does not adhere only to the principles of the liberal order [Stephen, 2014, p. 914]. The multi-layered, polycentric and sectorial nature of global governance makes it flexible enough to adjust to different configurations of power, as well as to the different means and goals of distinct actors. In this way, the polycentric conception of global governance does not mean necessarily an equal order; instead, “there is a recognition that the system is institutionally biased or distorted in favour of powerful states and vested interests” [Held, 2014, p. 66; see also Freire, 2017a].

The BRICS agenda has been widening as the group has become more consolidated through more institutionalization, including establishing common institutions such as the NDB, and a more institutionalized format for regular summits. The economic dimension has remained central despite the broader focus of the agenda to include “the overarching objective of generating strong, sustainable and balanced global growth, as well as financial regulation and reforming international financial institutions” [Lario-

⁴ Remarks at a conference on “G20 and BRICS: New Global Governance Institutions,” at the Russian Presidential Academy of National Economy and Public Administration, Moscow, Russia, 26 October 2016.

nova and Shelepov, 2015, p. 45]. In Swaran Singh's view [2013, p. 396] consolidation should focus on the economic dimension, whereas the BRICS should "remain cautious" on political and security matters.⁵ Thus, two main ideas can be emphasized. First, despite being what many saw as an improbable grouping, the BRICS committed to a common agenda and has delivered on it, including the creation of common institutions. Second, the focus on global governance implies new institutions but overall these are not intended to overthrow the current system. Rather they seek a balance between the goal of challenging the western neoliberal order while not dismissing it.

EU Going Global, BRICS Already Global?

The agendas of the EU and the BRICS have common goals such as improved economic relations, increased development, and the creation of a more stable and secure international environment. According to Susanne Grätius [2013, p. 2], declarations made at BRICS summits concentrate on global issues for which common positions on the main priorities have been consolidated, namely peace, security, development and cooperation. Moreover, it is understood that a strong image of the group would allow for a stronger positioning of the BRICS in the international system, with gains at both the collective and individual levels [Cheng, 2015, p. 373]. The preamble of "The Strategy for BRICS Economic Partnership" highlights the group's relevance in global terms and its agenda moving forward:

BRICS is a dialogue and cooperation platform among Member States (Brazil, Russia, India, China and South Africa) which together account for 30% of global land, 43% of global population and 21% of the world's Gross Domestic Product (GDP), 17.3% of global merchandise trade, 12.7% of global commercial services and 45% of world's Agriculture Production. This platform aims to promote peace, security, prosperity and development in multipolar, interconnected and globalized world. The BRICS countries represent Asia, Africa, Europe and Latin America, which gives their cooperation a transcontinental dimension making it especially valuable and significant [BRICS, 2015].

In official EU documents, the same goals for external relations have been present since early on. However, both the measures taken to achieve these goals and the understandings about development and security informing them have been different. For the EU, these are normative concepts that should be broadly understood; the BRICS countries tend to take a sovereigntist approach informed by a South-South discourse of development emphasizing a more equal and less hierarchical international system. The EU promotes the western neoliberal order, including in its external relations, and adds a normative dimension. However, it has been claimed that

the role of values and norms in EU foreign policy deserves an honest re-assessment. A shift towards a more interest-oriented approach has been discernible in recent debates on the EU's

⁵ On this issue see also Ramesh Thakur [2014].

external affairs, including its neighbourhood policy. The earlier idealism should not be replaced with cynicism, relativism or even realism in the sense of accepting that hard power ultimately dominates the liberal aspiration for a norms-based international order. But the EU needs to be more realistic (as distinct from realist), not least for the sake of its credibility [Raik, Helwig and Iso-Markku, 2015, p. 4].

Furthermore, although the EU aspires to become a global actor (as is made clear in the Global Strategy), the BRICS have already achieved global reach despite the diversity of its members' geography, nature and economic size. Nevertheless, and despite the differences between the EU and the BRICS in terms of the degree of integration, size of economies and growth performance, these actors are very much engaged. This is the case not only economically but also politically, even though in many instances their political agendas are misaligned. Katarína Králiková [2014, p. 248] has suggested that despite political discourse that often seems unfavourable to a closer rapprochement, the EU is the BRICS's biggest trading partner and has sought to assist the five countries in overcoming various problems. Thus, opportunities for cooperation exist and should be better acknowledged by the BRICS. Nevertheless, as Králiková notes, the EU should engage with the BRICS in innovative ways to contribute "to the upgrade of domestic production; the improvement of research, development and innovation; and better information sharing in the global knowledge networks and markets."

As Gratius [2013, p. 4] writes, "neither the EU nor the BRICS have ever suggested a group-to-group dialogue." She understands this to be the result of divergent world views, and of the fact that the BRICS countries have become "veto players against the West. This corresponds to the rhetoric of establishing an alternative global order:

Reflecting the major differences between the five countries, the intensification of the relations between the BRICS countries does not mean that they do systematically form a bloc. Nevertheless, the increasingly dense networks between the five countries are based on a common goal: that is to advance the G20 and other new multilateral settings as an international forum and to counter what they perceive as an undemocratic and unjust Western-dominated multilateral world. The BRICS phenomenon should therefore be seen as reflecting a general shift in the international balance of power with the centre of gravity moving from the Euro-Atlantic to the Asia-Pacific area and from the North to the South [Keukeleire, Mattlin, Hooijmaaijers et al., 2011, p. 1].

Additionally, BRICS summit declarations do not pay special attention to the EU, just as the EU Global Strategy does not mention the BRICS. This again points to these two groups engaging less at the multilateral level, and more in bilateral dealings. Gratius [Gratius, 2013, p. 4] writes that one argument is the level of economic interdependence or cooperation: "China's export boom and economic growth depends highly on the EU (its main trade partner), while China is the EU's second import and export market. Russian oil and gas exports concentrate on the EU and Moscow is not only Brussels main energy supplier, but also an important political headache, particularly when it comes to solve international conflicts such as the nuclear problem with Iran

or the civil war in Syria.” The potential of multilateralism to promote cooperation and informal integration benignly is not really being achieved in EU – BRICS relations, where the bilateral channel clearly defines interests and sets agendas. Consequently, in the global governance system the EU and the BRICS acknowledge the relevance of the “other” but remain apart on fundamental issues, especially on redesigning the international order to be more inclusive, in part due to the competing socialization/resistance dynamics in the BRICS “anti-West” and “with the West” discourse and practice. Despite opportunities for further integration, especially those arising from economic activities, the difficulties of framing this informal integration within a strategic partnership are evident. Structural disjuncture seems to prevail.

Strategic Partnership or Structural Disjuncture?

Although the EU has prioritized developing strategic partnerships as a way to deepen linkages with particular countries, the fact that existing strategic partnerships have not produced the expected informal integration results, including with the BRICS members, raises questions about the substance of EU relations with the BRICS. Three ideas seem relevant in this regard: first, the EU has thus far not developed a strategic approach toward the BRICS as a group despite recognizing its leverage and increasing influence in international relations; second, bilateral strategic partnerships between the EU and individual BRICS countries have not produced substantial relationships despite increasing trade cooperation; and third, the multilateral approach has been losing pace in the face of bilateral and more traditional relations with individual BRICS countries, signalling the difficulties of engaging with actors pursuing distinct visions and seeking alternative approaches to the western-led order. In fact, “over the longer term, all of the BRICS countries appear intent on reducing Western influence in global institutions. Traditional multilateralism is, therefore, not a reliable basis for strategy in a neo-Westphalian world” [Dennison, Gowan, Kundnani et al., 2013, p. 4].

These ideas point to a structural disjuncture in EU – BRICS relations in the sense that neither has invested in developing a common agenda or shared approach to strategic issues of common interest. Their differentiated agendas with respect to the configuration of the international system is a structural disjuncture rendering close cooperation difficult except in pragmatically selected areas of bilateral cooperation. Also, the level and size of these relationships vary to a great extent, with South Africa, for example, representing a very small share of EU trade relations, whereas China and Russia are significant partners in many areas. The case of Russia is interesting, as despite their interdependence relations between the EU and Russia are complicated by the events in Ukraine and Syria. As a result, Russia has been using the BRICS as a forum to find partners to compensate for the negative effects of strained relations with the EU. This underscores what Gratius [2013, p. 6] describes as a structural hurdle that must be overcome in order to deepen their relations: “for the EU it will be much easier to rely on traditional alliance on global issues than to move towards the positions of the BRICS

countries highly influenced by the traditional interpretation of national sovereignty, Realpolitik and non-interference in domestic affairs.”

Nevertheless, despite the limits of strategic partnerships, they do hold significant political value. What might be needed is the promotion of socialization practices, from all sides, that can contribute to a joint definition of the contents of these partnerships, taking account of the differences between the partners. At the bilateral level this is slowly being attempted in EU relations with BRICS countries; however, at the multilateral level there are no clear signals of strategic thinking about EU – BRICS structured dialogue. Given the growing complexity of the international system and the power shifts that are becoming evident in its reconfiguration, this could be a way forward in EU – BRICS relations. As Onuf [1989] puts it, which rules are followed, who follows them and how they are followed involve choices. Both the EU and the BRICS are norm takers and norm makers. What they choose to do in these roles will determine whether their relationship will open new avenues for cooperation and growth, or instead pave the way for competition and rivalry.

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ЕС и БРИКС: стратегическое партнерство или структурное расхождение?¹

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Система международных отношений все больше характеризуется взаимозависимостью и асимметричными взаимосвязями между образующими ее группами акторов. Несмотря на то что государства продолжают играть ключевую роль в международных отношениях, система по своей структуре гораздо более сложная, учитывая многоуровневые и многомерные взаимосвязи. Государства, международные организации, неправительственные акторы, структуры клубной дипломатии и группы государств (например, «Группа двадцати» и БРИКС) формируют эту сложную систему, в связи с этим система глобального управления становится все более многосторонней. Принимая во внимание данные тенденции, автор статьи исследует взаимоотношения Европейского союза (ЕС) и БРИКС, для того чтобы определить, как два сильно отличающихся друг от друга актора, осуществивших формальную и неформальную интеграцию, выстроили свое взаимодействие, а также возможности и ограничения их сотрудничества в условиях асимметричной и различающейся международной системы. Таким образом, автор стремится найти ответ на вопрос, являются ли взаимоотношения ЕС — БРИКС стратегическим партнерством или же демонстрируют структурное расхождение? В начале статьи автор рассматривает многосторонность как механизм, ориентированный на сотрудничество, хотя иногда и стимулируемый национальными интересами в условиях неоднородной и многоуровневой системы управления. Затем следует анализ взаимоотношений ЕС и БРИКС, в рамках которого автор определяет основные стимулы и то, как сложный контекст геополитических отношений упрощает или же, наоборот, затрудняет взаимоотношения. В заключительном разделе статьи автор приходит к выводу, что модель взаимоотношений ЕС и БРИКС сформировалась на основе асимметрии и амбивалентности. Это, в свою очередь, определило масштаб, возможности и подходы, а также понимание того, что подобное сотрудничество может быть взаимовыгодным, однако в то же время развитию взаимодействия мешают несовместимые правила и принципы в отношении международного порядка, которые приводят к фундаментальным структурным барьерам.

Ключевые слова: Европейский союз; БРИКС; глобальное управление; многосторонность; международные нормы

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Practitioners' Views

Promoting Infrastructure Investment: The G20 and the Multilateral Development Banks¹

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Abstract

The G20 is committed to promoting infrastructure investment and has called on multilateral development banks (MDBs) to increase their infrastructure lending to help boost global growth. Alongside long-standing MDBs such as the World Bank and Asian Development Bank (ADB), new MDBs such as the Asian Infrastructure and Investment Bank (AIIB) and the New Development Bank have been established, and G20 members would like both old and new multilateral banks to scale up their infrastructure investment by developing a pipeline of bankable projects.

Even with all the MDBs investing more, they will not be able to satisfy the global need for infrastructure. What they can do, however, is start to fill the infrastructure gap by catalyzing private investment and cooperating on standards and regional infrastructure. Concerns have been raised about the geo-political implications of the new MDBs which underscore the need for MDB cooperation. There are challenges to and opportunities for this cooperation. The G20 needs to be clear about the role it can play in encouraging MDB cooperation and infrastructure investment, and must also be aware of the limitations on its role given that each MDB has its own mandate.

Specifically, the G20 can downplay the perceived trade-off between efficiency and standards in the MDBs, encourage cooperation on new standards for sustainable or green infrastructure, invest in the Global Connectivity Alliance as a coordinating body for the MDBs and help align the G20 work on infrastructure with the United Nations Sustainable Development Agenda.

Key words: infrastructure; investment; G20; multilateral development banks

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Introduction

Estimates of the global infrastructure investment gap vary widely. The United Nations Financing for Development conference in Addis Ababa in 2015 suggested that there is an annual global infrastructure gap in developing countries of between \$1 to \$1.5

¹ The editorial board received the article in December 2017.

trillion [Third International Conference on Financing for Development, 2015]. In the Asian region alone, the Asian Development Bank ([ADB] [2012]) estimated that the total investment needed between 2010 and 2020 would be in the order of \$8 trillion. These are large numbers, even if they are not precise. Infrastructure investment is a major public policy challenge for both developing and developed economies.

The biggest challenge to reducing the gap is the need for technical expertise to prepare “bankable” projects. To this end, the Asian Infrastructure and Investment Bank (AIIB) and the New Development Bank (NDB) have been established. This article will focus on some of the opportunities and challenges for cooperation between the new multilateral development banks (MDBs) and the longer-established institutions. It will also comment on the role the G20 can play in promoting infrastructure investment and MDB cooperation.

There is already a rich body of literature on the impediments to infrastructure investment and on the relationship between infrastructure and growth. The International Monetary Fund (IMF) and MDBs have produced their own knowledge on the subject and numerous reports and case studies have been produced by private and public institutions. Therefore, rather than arguing the case for infrastructure investment, this article assesses the role of the G20, which has been promoting the message that more infrastructure investment would have a positive effect on global growth.

What Is the Gap?

The infrastructure gap is a global problem – there is huge demand for long-term infrastructure projects that are simply not being financed. The impediments to infrastructure investment vary across countries. Developing countries need financing and technical expertise. They tend to have less access to external finance, and the access they do have to conventional markets comes at a high cost because of their credit ratings. They also often lack the appropriate legal frameworks and policy tools required to facilitate long-term infrastructure planning and building [Qobo, 2014]. Here, the MDBs have a particular role to play given their “additionality” – they can finance projects that would otherwise remain unfunded due to a poor investment climate.

On the other hand, middle-income countries want policy-oriented lending, technical expertise, and targeted lending that will help unlock resources from other areas (for example, through the private sector or private-public partnerships). Even in high-income developed countries without a need for the MDBs, there is a growing need to replace or repair infrastructure.

There is a strong case to be made for filling the infrastructure gap. U.S. economist Lawrence Summers [2014] famously referred to infrastructure investment as a “free lunch” because governments can use infrastructure to strengthen both the economy and their own financial positions. The IMF also supports the message that infrastructure spending is good for growth because “if properly formulated, more public infrastructure investment may enhance, rather than weaken, fiscal positions as shown in

many countries” [Zhang, 2016]. In this context, it is not surprising that the G20 has made infrastructure investment a priority in recent years, or that new multilateral banks focusing on infrastructure have been established. However, an important caveat is that investments should be efficient and the G20 and the MDBs need to focus on bankable projects.

What Are the New Multilateral Development Banks?

A multilateral development bank differs from a conventional bank in that it provides advice for economic and social development in addition to finance, and its shareholders are sovereign states. Traditionally, MDB lending was to be driven by a focus on development outcomes. Another characteristic that differentiates the MDBs is their governance structure. As multilateral organizations, they are governed through consensus, although the relative voice of shareholders has been a source of contention and major shareholders are able to influence decision-making to pursue their own interests. MDBs have been attractive to both borrower and donor countries in the past because of “their traditional political neutrality, freedom from special interests and corruption, technical professionalism, long-term development perspective and hands-on program design and finance engagement” [Linn, 2015].

The very concept of development has shifted dramatically away from official development assistance led by sovereign states and through the MDBs. In the past, MDBs played a role in infrastructure investment through project lending. But in recent years, as finance sources have diversified, more attention paid to using the multiplier effect of MDB investments to help fill the infrastructure gap. According to the World Bank [2015], for every one dollar invested directly by MDBs in private-sector operations, some two to five dollars are mobilized in additional private investment. In this way, an MDB can “bring investors on board by virtue of its global or regional presence, technical expertise, due diligence, negotiation capability and, in some cases, by extending its preferred creditor status to other investors” [Moore and Kerr, 2014]. The idea is that MDBs can act as guarantees for risk and thus encourage private investment. They can catalyze additional private and public resources for infrastructure, especially by leveraging their relationships with governments.

Since the global financial crisis, borrowing costs have been low while infrastructure bottlenecks have built up in many emerging-market and developing economies. In particular, there is a desire for governments to build “core” infrastructure, that is, large and capital-intensive projects in transportation, energy and communications [IMF, 2014, ch. 3]. Many countries have been frustrated by the impediments to infrastructure investment in these areas because private actors have been unwilling to take on risks or because MDB projects take too long. The AIIB and NDB have been set up with emerging economies as major shareholders with ambitions to help unlock infrastructure investment.

The Asian Infrastructure Investment Bank

The Chinese-led AIIB has 57 founding members, a capital base of \$100 billion and a mandate to finance regional infrastructure. Its establishment caused geo-political tensions when the United States and Japan (major shareholders in the established MDBs) declined to join the new bank and other U.S. allies, including several European countries and Australia, signed on. The United States declined to join ostensibly because of concerns about governance and standards. The AIIB has been perceived as a challenge to regional banks such as the ADB and even the World Bank given its potential global influence.

The AIIB was set up relatively quickly. It was established in 2015 but six projects were already approved in 2016, including several that are co-financed with other MDBs. The AIIB is still defining itself vis-à-vis the more established MDBs. Jin Liqun [2016], AIIB president, suggests that it will “find its niche among the MDB family.” Documents on the AIIB website refer to the fact that the AIIB is an MDB “conceived for the 21st century,” implying that older MDBs have not evolved to face new challenges [AIIB, 2016, p. 27]. The AIIB promises to be “lean, clean and green” and focuses on regional connectivity, green infrastructure and private sector financing [AIIB, undated]. The AIIB is caught between wanting a good credit rating and wanting to take on more risks compared to what it sees as the overly cautious approach taken by established MDBs. This has raised a new debate across all the MDBs about a trade-off between standards and efficiency.

The New Development Bank

The New Development Bank (NDB), established by the BRICS grouping of Brazil, Russia, India, China and South Africa, has a capital base of \$100 billion to foster infrastructure and sustainable development initiatives. It is the most tangible outcome of cooperation among BRICS countries to date. The NDB acts like a credit cooperative among the five founding members, and this more limited structure means it is a better example of South-South cooperation among developing economies. It also means that it poses less of a challenge to the traditional MDBs than the AIIB. Currently, NDB invests only in projects within the five founding countries whereas the AIIB invests more broadly.

Unlike the AIIB, the NDB seems more willing to take risks. Its president, former private banker K. V. Kamath, wants the NDB to offer “a different mindset” and more flexibility in its operations [PTI, 2015]. Although the NDB’s website has since changed, it originally described the bank as “an alternative to the existing US-dominated World Bank and International Monetary Fund” [Tiezzi, 2015]. The NDB struggles to get a good credit rating given its membership. In contrast, the AIIB’s credit rating is helped by a number of AAA-rated members.

The new MDBs are still evolving, so it is very difficult to comment on how their governance, standards, lending and project selection will develop. As the new banks co-finance projects with the older MDBs they may begin to adopt similar outlooks and practices. Alternatively, they may take on more risks to differentiate themselves, even though this could have consequences for their credit ratings or lead to inefficient projects with potentially negative social or environmental consequences if proper safeguards are not enforced.

Challenges and Opportunities for MDB Cooperation

So far, there have been positive signs of cooperation between the new MDBs and the older institutions. For example, the presidents of the World Bank and ADB both officially welcomed the new banks and offered to co-finance projects. Behind closed doors, the established MDBs may have some concerns about the new players, but they have responded well to them in public. World Bank president Jim Yong Kim spoke about both new banks as “potentially strong allies” and “great new forces” [Donnan, 2015]. ADB president Takehiko Nakao said his bank would “cooperate closely with AIIB in supporting the development of the Asia Pacific region” [ADB, 2016].

There is an opportunity for the old and new MDBs to cooperate on standards for sustainable or green infrastructure. Although there is a global push for infrastructure, there is also growing awareness of the environmental effects of large-scale infrastructure projects. The 2015 Paris climate agreement and the United Nations 2030 Agenda for Sustainable Development demonstrate a new commitment to mediating the effects of climate change. A 2016 report from the Center for Global Development calls for more sustainable infrastructure, that needs to be even cleaner and involve the private sector as much as possible [High Level Panel on the Future of Multilateral Development Banking, 2016]. Currently, there is no clear global standard of what constitutes a sustainable investment.

Regional infrastructure is yet another area where the MDBs could cooperate. More work is needed to harmonize infrastructure across borders to facilitate the movement of goods, services, people, capital and technology. For example, MDBs could help to mediate disputes among neighbouring landlocked countries that prevent cooperation on roads and tolls. Another example is energy access, where regional infrastructure can help better match energy producers and consumers.

However, some potential areas of competition could undermine cooperation among MDBs. At the project level, if one MDB provides the technical assistance and project set-up, another bank could come in and offer better terms midway through the project. There have already been concerns about a “race to the bottom” as competing banks offer lower standards and faster delivery. The worst-case scenario would be a fragmentation of the MDB landscape along geo-political fault lines with client countries choosing MDBs that align with their geo-political interests. This is where the G20 can potentially play a role by legitimizing the new banks and encouraging MDB co-

operation. The more the MDBs can find common areas of cooperation, the lower the risk of inconsistent infrastructure standards, and the better the chance for the growth outcomes.

A Role for the G20

The G20's mandate is to promote strong, sustainable and balanced growth. The so-called "premier forum for international economic cooperation" has long promoted the link between infrastructure investment and global growth. Infrastructure was an important pillar of the 2010 G20 Seoul Development Consensus for Shared Growth. During China's 2016 G20 presidency, finance ministers and central bank governors agreed to "reaffirm our commitment to promote investment with focus on infrastructure in terms of both quantity and quality" supported by a joint declaration by 11 MDBs [G20 Finance Ministers and Central Bank Governors, 2016].² This declaration included

announcements of quantitative ambitions for high-quality infrastructure projects within their respective institutional mandates as well as their efforts to maximize the quality of infrastructure projects, strengthen project pipelines, collaborate further among existing and new MDBs, strengthen the enabling environment for infrastructure investment in developing countries, as well as catalyze private resources [G20 Finance, 2016].

The MDBs [2016] have agreed to work to "identify bottlenecks that hinder greater levels of private and public sector infrastructure investment" through a list of measures including identifying legal barriers, supporting government infrastructure projects, identifying opportunities for the private sector and sharing knowledge. However, in the same document, the MDBs made clear that their work is subject to client demand and their institutional mandates.

The G20 has already called on the MDBs to optimize their balance sheets. It calls on the MDBs [MDBs, 2015] to "increase lending without *substantially* increasing risks or damaging credit ratings" [emphasis added]. To help grow the pipeline of bankable projects, the G20 launched the Global Infrastructure Hub under the 2014 Australian presidency, although it has struggled to establish itself. In 2016, the G20 finance ministers and central bank governors [2016] also set up the Global Connectivity Alliance to "enhance cooperation and synergies of existing and future global infrastructure and trade facilitation programs seeking to improve connectivity within, between and among countries." The World Bank would serve as secretariat, working closely with the Global Infrastructure Hub, the Organisation for Economic Co-operation and Development, the MDBs, global and regional infrastructure programmes, and other international organizations.

² The 11 banks involved are the World Bank, African Development Bank, Asian Development Bank, Asian Infrastructure Investment Bank, Development Bank of Latin America, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank Group, Islamic Development Bank Group, New Development Bank and International Finance Corporation.

The G20 has already played an important legitimizing role by including the new MDBs in its recommendations. This gives de facto recognition that the G20 will support actions by the new MDBs to fill the infrastructure gap. The G20 should keep encouraging MDB cooperation and calling for a boost in infrastructure in both developing and G20 countries.

Although the G20 can set the direction for more investment from the MDBs, it should be wary of directing or tasking the banks too stringently. There have been criticisms of the G20's approach to the MDBs, for example, "the G20's development agenda, which points to a central role for the MDBs, tends to reinforce fragmented and ad hoc approaches ... [This] agenda has tasked MDBs with countless reports and white papers across hundreds of topics and subtopics with little high-level decision making" [High Level Panel, 2016]. The G20 works best as an agenda setter. In this case, G20 leaders can continue to encourage cooperation among the MDBs without unnecessarily commissioning an endless pile of working papers.

Attempts to fulfil growing infrastructure demands (especially regional integration) will require better coordination between the MDBs and other actors. There are already many different arenas for setting an agenda for infrastructure investment. In addition to the G20's efforts, the 2030 Agenda has 17 Sustainable Development Goals (SDGs), with the ninth being to promote "industry, innovation, and infrastructure" [UN, 2015].

The G20 can support the alignment of the MDBs with the UN's ambitious (yet non-binding) SDGs. A statement from the World Bank and IMF annual meetings in 2016 noted that the MDBs would "provide not only the necessary financing – either directly or by helping to 'unlock' and catalyze additional public and private resources – but also policy advice and technical assistance supporting countries to build domestic capacity" in order to meet the 2030 Agenda [World Bank, 2016]. Given that the G20 is made up of a selection of developed and emerging economies, the 2030 Agenda might be more suitable for framing MDB activities as the SDGs are universal goals that include all developing countries.

This article proposes several ways in which the G20 can play a role in promoting MDB cooperation to increase infrastructure investment, namely:

- downplaying a trade-off between efficiency and standards among the MDBs and encouraging the new MDBs to uphold high standards while they seek more efficient ways to do business;
- encouraging the MDBs to cooperate on new standards on sustainable or green infrastructure and to continue to facilitate regional infrastructure;
- investing in the Global Connectivity Alliance as a coordinating body to promote complementarity and avoid duplication among the MDBs;
- aligning the G20 work on infrastructure with the 2030 Agenda, especially with regards to infrastructure investment in non-G20 developing countries; and
- working to diffuse any tensions that might arise among relevant major shareholders that are also G20 members in the event of overt competition among the MDBs.

Conclusion

The MDBs – both old and new – cannot meet the global infrastructure gap alone. Bridging that gap will require a coordinated effort and a great deal more private sector activity. Infrastructure projects are naturally slow, so there should be realistic expectations about what can be achieved in any given timeframe. The G20 is just one arena for discussions on global infrastructure needs. The 2030 Agenda potentially offers a more long-term and inclusive framework for MDB investment.

There are positive signs that the MDBs are working together and increasing their lending, with future opportunities for them to set the standards for more innovative, sustainable infrastructure and invest in regional infrastructure. This is a fruitful area for future research. The new MDBs have the potential to help unlock infrastructure investment and the G20 has taken a positive step in recognizing their legitimacy. The G20 should continue to promote infrastructure investment and MDB cooperation without intruding on the mandates of the MDBs.

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Развитие инфраструктурных инвестиций: «Большая двадцатка» и многосторонние банки развития¹

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«Группа двадцати» приняла обязательство стимулировать приток инвестиций в инфраструктуру и призывает многосторонние банки развития (МБР) увеличить кредитование инфраструктурных проектов для содействия глобальному росту. Наряду с существующими МБР, такими как Всемирный банк и Азиатский банк развития, были созданы новые структуры — Азиатский банк инфраструктурных инвестиций и Новый банк развития. Страны «Группы двадцати» ожидают от новых и ранее созданных МБР увеличения объемов инвестиций в инфраструктуру за счет непрерывного роста потока рентабельных проектов. Однако даже если все МБР станут наращивать объемы инвестирования, они все равно не будут способны удовлетворить глобальный спрос на инфраструктурные инвестиции.

МБР могут разрешить проблему дефицита инвестиций в инфраструктуру путем привлечения частных инвесторов и более глубокого взаимодействия между собой при выработке стандартов и в развитии региональной инфраструктуры. Существующие опасения относительно геополитических последствий возникновения новых МБР только стимулируют углубление взаимодействия между банками развития. Существует ряд вызовов и возможностей для сотрудничества в этой сфере. «Группа двадцати» должна ясно представлять, в чем состоит ее роль в процессе углубления взаимодействия между банками и увеличения объемов инвестирования в инфраструктуру, а также воздерживаться от выхода за рамки этой роли, всегда учитывая наличие собственной сферы полномочий и ответственности у каждого банка из группы МБР.

«Группа двадцати» может сгладить ощутимое несоответствие между количественной эффективностью и принятыми стандартами в деятельности МБР путем поощрения взаимодействия банков при выработке новых стандартов устойчивой / «зеленой» инфраструктуры, внося вклад в деятельность Альянса для глобального сопряжения инфраструктуры, выполняющего роль координатора деятельности МБР, а также помогая совместить деятельность «Группы двадцати» по развитию инфраструктуры с Повесткой дня в области устойчивого развития ООН.

Ключевые слова: инфраструктура; инвестиции; «группа двадцати»; многосторонние банки развития

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Afghanistan After 2014¹

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Abstract

Rather than improving, the situation in Afghanistan has further deteriorated after the withdrawal of the majority of American troops from Afghanistan. The ruling elite, despite having firm support from Washington and the West in general, has not been able to achieve the necessary degree of consolidation and the government formed after the presidential elections in 2014 remains politically shaky and vulnerable. The national economy depends heavily on foreign financial and economic injections. The 10-year economic program to promote self-sufficiency has not had a meaningful effect.

The government of Afghanistan failed to launch negotiations with armed opponents who endorsed the complete withdrawal of U.S. and North Atlantic Treaty Organization (NATO) forces. The Taliban continues to maintain control over a significant part of the country's territory. Along with intensive military operations, it conducted large-scale terrorist attacks in cities including Kabul. Simultaneously, the infiltration of fighters from the Islamic State of Iraq and the Levant (ISIS) to eastern and northern areas has increased significantly.

Neighboring countries, including Russia, continue to express concern over instability and increased ISIS activity and point to the perils of drugs and terrorism spreading from the territory of the Islamic Republic of Afghanistan. Viewing these issues as potential threats to regional security, Afghanistan's neighbors have made efforts to provide assistance to Kabul to support its efforts toward national reconciliation.

The accession of the new U.S. administration to power has not changed Washington's principal approach towards Afghanistan. Moreover, an increase in the presence of military and NATO forces in that country has been considered and could further heighten tensions in Afghanistan.

Key words: Afghanistan; National reconciliation; The Taliban; ISIS; U.S. policy, Russia

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Two major developments were unfolding in Afghanistan in 2014, making this a notable period in the country's recent history. The first was related to an external factor, namely the decision of Barak Obama's administration to withdraw the majority of American troops from the country. The process was carried out amid ongoing efforts to suppress armed opposition and a growing backlash by the country's population and government

¹ The editorial board received the article in March 2017.

against the presence of foreign troops, and U.S. forces in particular.² The second factor was internal, related to the fact that the country's presidential election was held against a backdrop of sharp internal instability and the relentless activity of the armed opposition. The situation was further aggravated by the country's dependence on foreign aid and drug production which to some degree became the pillars of the economy of Afghanistan.

The long-lasting and painful process leading up to the presidential election stretched from the spring to the fall of 2014, and highlighted the divisions among ruling elites who were unable to take firm steps towards unity even shortly before the reduction of the foreign military presence in Afghanistan. The personal ambitions of the key claimants to leadership in a country fraught with interethnic and interregional contradictions led to a stalemate when it came to identifying the winner of the election. To break the deadlock, Washington asserted influence both overtly and behind the scenes resulting in a Washington-sponsored deal that declared Ashraf Ghani to be the new leader of the country and his longtime political opponent Abdullah to be the "chief executive" of the national unity government. The fact that the latter post is not defined in the constitution of the Islamic Republic of Afghanistan made this position, and the new ruling coalition itself, both politically and legally vague. The long and complicated process to form Afghanistan's government underscores lasting internal political uncertainties.

To overcome the emerging dilemma, Ghani and Abdullah struck a deal on the separation of powers which included the immediate formation of a new electoral commission and a new supreme constitutional body – the Loya Jirga – to amend the constitution and organize new parliamentary elections. However, real efforts in this area were made only after further pressure was applied by the West just prior to the donors' international conference in Brussels in October 2016. Even still, the election issue remains unsettled.³

The key domestic and foreign policy objectives of the national unity government were presented in Ghani's inauguration speech. Ghani underlined security problems, negotiations with Talibs, the fight against terrorism and the production of drugs as pressing issues. In addition, Ghani presented a new policy intended to "reset" the Afghan economy based on significant foreign financial and economic assistance in support of a gradual transition to self-sufficiency. The most important part of the speech was the commitment to comprehensive governmental reform, including reform of the public authorities' triad, increased efficiency of defensive and security bodies, greater attention to human rights and other issues.

² This was reflected in the defiant refusal of President Karzai to sign an agreement on security with the United States. After the troops' withdrawal, an agreement was required to determine the scope of further assistance, including financial aid, to the Afghan security forces which were almost totally funded by Washington. Without this, an agreement on a new downsized training format for NATO troops in the country could not be signed. In the meantime, all key security functions in the country were officially shifted to the Afghan authorities, and foreign troops' participation in the war against the armed opposition was understood to be exceptional in nature.

³ At that, the term limit of the parliament's lower chamber expired in summer 2015.

Domestic Policy

Kabul made several unsuccessful attempts to initiate negotiations with the Taliban with the participation of the U.S., China, Pakistan, Qatar and other parties; the immediate withdrawal of foreign troops from the country remained the key requirement of the armed opposition but it viewed partial withdrawal as an opportunity to tilt the balance of power in the country. Consequently, after 2014 the key characteristic of Afghanistan's internal development was the steady increase of the Taliban's influence in various regions in Afghanistan, including its northern parts. The opposition mounted several military operations on a greater scale, and less seasonably determined, than before. Large terrorist attacks were carried out in cities, including Kabul. According to various estimates, by late-2016 up to one-third of the country's territory was beyond the government's control. U.S. air strikes only aggravated the population's sensitivity to the foreign military presence. At the same time units of the Afghanistan security forces (the army – 190,000 men; the police – 160,000 men) were inefficient and incapable of fundamentally addressing the situation.

The lack of real unity remained a key challenge for the leadership of the national unity government as well as for the armed opposition. Many Taliban field commanders continued to struggle for maximum discretion in military and political affairs. The death of Taliban founder and leader Mullah Omar in late-2015 and the confirmation of Mullah Mansour as his successor did not bring significant changes. During a lengthy truce the Taliban split into three groups, thus creating opportunities for the national unity government in its fight against its adversaries, allowing it to find common ground with some while sowing discord among others. However, at the same time this fact hampered Kabul's attempts to find a real dialogue partner among the armed opposition.

In the fall of 2016 a peace agreement was reached with the Hezbi Islami leader Gulbuddin Hekmatyar, one of the most odious and conceited adversaries of the regime, but it has not yet tipped the balance of power between the government and the armed opposition. The authorities committed to give Hekmatyar full amnesty, secure the lifting of sanctions imposed by the UN (the decision has already been made), guarantee the personal security of Hekmatyar and other Hezbi Islami activists as well as their participation in the country's political life and to set some of its detained followers free. In return, Hezbi Islami expressed readiness to cease military activity against the government and to recognize the country's constitution, among other things. The agreements were considered successes by the Ghani government; however it remains unclear whether they will serve as examples for other groups hostile to Kabul and it may even be that the agreements could pose significant potential risks for the national unity government. Hekmatyar, well known for his lack of principles and political disingenuity, will definitely strive to use his current position to strengthen his influence over all of Kabul's power structures. Preserving extensive relations with the Taliban, Al-Qaeda

and the Islamic State of Iraq and the Levant (ISIS) gives Hezbi Islami's leader additional opportunities for political and military maneuvers.⁴

Remaining tensions and power struggles in the governmental coalition will help the Hezbi Islami leader to achieve his goals. Despite Ghani's public assurances that the national unity government is stable and fully reconciled with Abdullah, conflict emerged in November 2016 between Ghani and first Vice-President Abdul Dostum, who represents the interests of the Uzbek minority in northern Afghanistan. Earlier that year the president had failed to oust Atta Muhammad – a powerful Tajik activist and governor of one of the most important northern provinces.

The recent emergence of ISIS fighters introduces a new actor in the conflict and has changed the general situation in Afghanistan, sparking new uncertainties regarding national reconciliation. Statistics on ISIS in Afghanistan are ambiguous.⁵ At first, relations between the Taliban and ISIS forces largely comprised of fighters from China's Xinjiang Uyghur Autonomous Region were hostile. However, relations have begun to improve due to certain changes in ISIS tactics. The phenomenon of the so-called Islamic State in Afghanistan internationalizes the terrorism issue in the country. Although these relations create more problems for Kabul authorities, the situation also justifies government demands for extra financial and military aid from the international community in the foreseeable future.

It is very likely that Kabul, following this pattern, will insist on becoming a full member of the Shanghai Cooperation Organization (SCO) as soon as possible. Kabul may also try to capitalize on the growing concerns of Russia, China and the Central Asian republics about the possibly destructive impact of ISIS on stability in the regions north of Afghanistan. The existence of these concerns was illustrated by the SCO summit declaration signed in Astana, 8–9 June 2017, that expressed the shared understanding of the SCO parties (including new members, namely India and Pakistan) concerning the need to resume the SCO – Afghanistan Contact Group working process.⁶

⁴ Recently the Hezbi Islami leader has claimed that he would join ISIS and that he was an adherent of the "Khorasan Caliphate."

⁵ Data presented in a special report by the U.S. Special Inspector General for Afghanistan Reconstruction John Sopko in November 2016 suggests that the total number of armed insurgents in the country was 45,000. The report notes that in August 2016 only 63% of the country's districts were under control of the national unity government while the insurgents occupied up to 30%. According to the data, in 2016 the Afghan National Army's losses increased significantly. In 2015 personnel losses included 15,000 wounded and 5,000 killed. In the first eight months of 2016, the Afghan National Army has suffered losses of 10,000 wounded and over 5,500 killed. At the same time, U.S. sources claim that in the first quarter of 2017 the number of ISIS insurgents located in the eastern part of the country has declined. According to estimates presented by U.S. military officials, significant numbers of new ISIS forces, predominantly from Central Asia, arrived in Afghanistan in the fall of 2016.

⁶ "The Astana Declaration of the Heads of the State of the Shanghai Cooperation Organization." Available at: <http://eng.sectsc.org/documents/>

The Economy

Afghanistan is still unable to solve complex economic problems without large-scale foreign aid. An international conference was held in London in late-2014 to examine the country's economic problems and prompt the international community to provide further financial and economic aid. The national unity government confirmed its commitments to take measures to lower state spending and increase state revenue (by broadening the tax base in particular), and also to make structural changes, strengthen financial discipline, improve the investment climate for private business (including foreign business), strengthen public authority and administrative capacity as well as to undertake additional socially oriented efforts. The conference supported the government's efforts in the social and economic spheres and described them as forming "a relevant framework" for achieving the country's goals. At the same time, the donor nations linked their future contributions to the country's economic and financial sectors to the achievement of meaningful progress in comprehensive economic and social reforms by the government.

The London document has become a roadmap for Afghanistan aimed at fulfilling ambitious plans for the coming decade. In this context, western experts tend to emphasize the social and economic achievements of Afghanistan in their assessments of outcomes in the last two years. These achievements include increased life expectancy and decreased infant mortality, education and health successes, developing civil infrastructure, the gradual establishment of civil society and other accomplishments. However, these successes do not alter the basic fact that an excessive budget deficit (\$1 billion in 2015) remains the most pressing of Afghanistan's financial and economic dilemmas. The task of increasing the efficiency of customs duties remains unfinished, as does the identification of new sources of state revenues (although the government has made certain progress in this direction).

In October 2016 the regular international representative conference, attended by more than 100 countries and international organizations including the United Nations (UN), was held in Brussels under the auspices of the European Union (EU) and the ministry of finance of Afghanistan. The conference continued the London process. Its leading motive was to support actions of the national unity government, encourage it to undertake further reforms and provide further assistance until 2024. Remarks by U.S. Secretary of State John Kerry set the general tone for the conference. On behalf of the United States, he pledged full support for the peace process in the country and confirmed the commitment to "deepen our strategic partnership" with Afghanistan and provide further assistance to the country [Kerry, 2016]. Ahmad Hakimi, Afghanistan's minister of finance, highlighted improvements in some economic indicators, the realization of several economic projects, judicial system reform, increasing tax revenues, the fight against corruption, achievements in the social sphere and human rights protection.

The conference pledged to provide Afghanistan with \$15.2 billion by 2020. The final communique stated that the country faces significant challenges which require fur-

ther finance and resource mobilization. The conference expressed its support for “the political process without preliminary conditions” and vigorously urged ongoing work on elections reform, the holding of parliamentary elections in 2017 and the continued fight against corruption [Brussels Conference on Afghanistan, 2016].

Foreign Policy

In its foreign policy, Afghanistan’s government did not proclaim reliance on the U.S. although the survival of the regime seems unlikely without support from the U.S. and western countries in general in the foreseeable future. Indeed, the agreement on co-operation in the security sphere signed between Kabul and Washington immediately after overcoming the power stalemate in Afghanistan and the agreement with the North Atlantic Treaty Organization (NATO) on the status of the Resolute Support Mission troops which replaced the International Security Assistance Force (ISAF) suggest that this is a high priority for Afghan authorities. These agreements confirm the importance of military cooperation with the West for Kabul and offer a kind of insurance in case there is further internal deterioration.

The 2016 NATO summit declaration in Warsaw stated the intention to extend the Alliance’s mission beyond that year due to ongoing armed opposition in northern, eastern and north-eastern regions of Afghanistan. It also committed to providing financial assistance to the Afghan National Army (ANA) until 2020 with an extension until 2024, after which Kabul would be expected to take full responsibility for funding ANA and security forces. Providing support for reconciliation in the country and a peace process headed by the Afghans themselves “based on respect for the Constitution” was presented as the top priority [Ibid.], even while in some sense this contradicts the Brussels conference communique of October 2016. Following the conference, NATO leaders confirmed the importance of retaining a military presence in Afghanistan.

Kabul paid special attention to traditional Islamic considerations in its attempts to intensify its multidirectional foreign policy. This applied especially to relations with Saudi Arabia and Qatar, both of which played an important role in establishing dialogue with the Taliban. Recently these key Persian Gulf states have been struggling with each other for the right to maintain contacts with Kabul on their own territories.⁷ Compared to their neighbors, China and India have been central to the foreign strategy of the national unity government. During Ghani’s time in office, China became the key vector in Afghanistan’s foreign policy not only at the regional level, but also globally. China was the first country visited by the new president of Afghanistan (excluding his brief trip to the “holy places” in Saudi Arabia). Meetings there were aimed at the further development of bilateral economic ties and were also intended to confirm support for Kabul’s attempts to revive its gridlocked dialogue with Pakistan to establish negotiations with the armed opposition. Special emphasis was put on the comprehensive

⁷ While Qatar enjoyed the upper hand in the past as the Talibs set up their offices there and hosted delegations from Kabul, more recently Riyadh has stood out in terms of activity there.

development of the previously declared “strategic partnership” with Beijing with a view to neutralizing Western presence in the country.

The government of Afghanistan takes into account the growing interest of China towards Afghanistan in economic matters – Afghanistan was included in China’s “One Belt One Road” project. China is also interested in the security situation in Afghanistan due to China’s appreciation of the increasingly destructive Afghan influence on the situation in China’s western Muslim regions. Kabul’s foreign policy priorities thus embrace a kind of coordination between China and the U.S. given China’s interest in establishing broad “pragmatic cooperation” with Washington in Afghanistan [Li Qinguan, 2015].

As a part of the policy aimed at gradually transforming Afghanistan into a transport hub connecting Iran, Central Asia, India, China and the Indian Ocean, Afghan authorities have expressed growing interest not only in projects aimed at Afghanistan within the Istanbul process, but also in different aspects of the “One Belt One Road” initiative.⁸ Taking advantage of Beijing’s growing attention to Afghanistan in its regional policy, Kabul actively backed Islamabad’s proposal to turn the trilateral Afghanistan – U.S. – Pakistan consultations into four-party negotiations. Although no success has yet been achieved, this fact is worth noting. Moreover, Beijing has previously mediated contacts between Kabul and the Taliban. However, as contacts between special forces and both parties have increased, China is becoming a more vigorous partner in Kabul’s defense. In late-2014 China, Afghanistan and Tajikistan signed a trilateral agreement on joint border patrol in the Wakhan Corridor in Badakhshan province. However, conflict escalation and military clashes with Taliban forces impeded implementation of the agreement. Nevertheless, in 2016 bilateral antiterrorism drills took place in Tajikistan with China’s participation.

Shortly after Ghani came to power, the president took a bold political step to intensify the peace process with the Taliban. He attempted to establish closer contacts with Pakistan and to set up defense cooperation and contact between special forces of the two countries. Despite the backlash in Afghanistan, both from the parliament and from key coalition partners, the parties managed to draft some pressing measures which would have had meaningful results. Bilateral trade and transit facilitation took shape. However, continuing activities behind the scenes by Pakistan’s Inter-Services Intelligence (ISI) and its ongoing contact with the Taliban have virtually nullified these attempts, and Kabul’s vigilance against Islamabad’s activities in “Afghanistan’s field” has renewed.⁹

While implementing the “strategic partnership” with India and countering Pakistan, Ghani’s government carried out deliberate policy aimed at the further expansion of political and economic relations with Delhi. This is a longstanding focus for Afgha-

⁸ In October 2016 China and Afghanistan reached another agreement regarding exploration of natural resources in Afghanistan. In September 2016 Afghanistan and China launched the first railroad project. Security issues, including the joint fight against terrorism and illegal drugs, are an important aspect of their bilateral cooperation. Their mutual determination is reflected not only in sharply increasing military contacts between both countries but also in the establishment of a four-party consultation mechanism on security issues along with neighboring Pakistan and Tajikistan.

⁹ However, with assistance from Islamabad (and Beijing), Kabul managed to establish contacts with the Talibs; however, this made little difference to Kabul’s efforts.

nistan given the complicated relationships that Pakistan has with Kabul and Delhi – the shared anti-Pakistan sentiment that shapes relations between Afghanistan and India has never changed significantly and is not likely to in the future. With India providing assistance (earlier it gave Kabul a \$1 billion credit), the creation of several free economic zones and development of transit capacity in some small provincial Afghan airports are envisaged. Further, the completion of a large dam is planned for the spring of 2017.¹⁰

The closest northern neighbors of Afghanistan, the Central Asian nations, are alarmed about developments in Afghanistan but they continue to develop economic and political relations with Kabul in different formats. They justifiably apprehend the potential for a destructive influence on their internal stability if internal conflicts in Afghanistan escalate. ISIS activities in the northern provinces create extra nervousness in the region. The policy of these countries toward Afghanistan will most probably be shaped in the context of these factors.

Ghani did not mention Russia in any context in his keynote speech in the fall of 2014, suggesting that the relationship with Russia was not a high priority for the incumbent leaders of Afghanistan. The almost two-year absence from Russia of an Afghan ambassador after former President Karzai's uncle was recalled indicates the same.¹¹ However, Kabul has a pragmatic interest in gaining access to Soviet and Russian military equipment (mainly aircraft) and spare parts, and also in the reconstruction of some basic industries built by the Soviet Union in the 1950s–1980s. Similarly, Kabul could benefit from Russia's clout in Central Asia and its established relations with China, India, Iran and recently, Pakistan. Together, these factors prompted Kabul to be more flexible in its relations with Moscow. Meanwhile, given the implicit priority of the U.S. in Kabul's foreign policy, Afghanistan continued to follow the general policy of the U.S. toward Russia. This was confirmed by the viral anti-Russian campaign launched in Afghanistan and in the West after the Russian presidential envoy to Afghanistan explicitly mentioned Russia's partial contacts with the Taliban and after the trilateral meeting between Russia – China – Pakistan held in Moscow in late 2016 excluded Afghanistan. This, along with allegations by the commanders of NATO troops in Afghanistan in early-2017, and later about the alleged provision of Russian military supplies to the Taliban, was aimed at concealing the national unity government's difficulties and failures in tackling challenges of neutralizing the military capacity of its internal adversaries.

Moscow's long-term stance on Afghanistan stems from concerns about the remaining turmoil in Afghanistan and the lack of progress toward peaceful resolution of the conflict. The growing influence of ISIS in the country, especially in the northern

¹⁰ Recently, vigorous efforts have been made within the context of trilateral agreements between Kabul, Iran and India to build the Chabahar port in the Persian Gulf. Afghanistan is set to have its own sea terminal there which would reduce Afghanistan's transit dependence on Pakistan significantly – permanently tense relations with Pakistan have a negative effect on virtually the entire Afghan economy. Setting up Afghanistan's consulate in Hyderabad in 2016 reflected the developing relations between Afghanistan and India.

¹¹ However, later the new Afghanistan president perceived his error and sought repeatedly to address the situation through his proxy, National Security Council secretary H. Atmar, as well as during the brief meetings with Russia's authorities, including on the sidelines of the Shanghai Cooperation Organisation summits.

region, causes particular concern. Kabul's disposition for peaceful negotiations was confirmed by President Ghani at the international conference in Munich in February 2017, while Russia's support for this policy was confirmed during the trip of Afghanistan's minister of foreign affairs S. Rabbani to Moscow the same month. Russia is ready to establish constructive cooperation with Afghanistan to maintain its stability and independence as well as to promote negotiations while continuing assistance to its security forces. Besides terrorism, Russia is extremely anxious about the drug issue. Large-scale production of drugs funds and encourages terrorism and undermines regional stability. This focus area could become a more important sphere of cooperation between Moscow and Kabul.

At the six-party talks, held immediately after Rabbani's visit to Moscow, regional approaches to solving the Afghan problem were discussed. The parties reached agreements on stepping up efforts to facilitate the reconciliation process with Kabul in the lead role. They highlighted the need to broaden regional efforts aimed at stabilizing the situation and the need to engage new parties, mainly from Central Asia. Against this backdrop, Moscow has brought the Shanghai Cooperation Organization to the forefront – all members of this organization are neighbors of Afghanistan. The ascension of India and Pakistan to the SCO in June 2017 will significantly strengthen its position as the central regional forum in which a comprehensive solution to Afghanistan's problems can be sought. Recognizing that any hope of resolving Afghanistan's stalemate without the participation of Washington is unrealistic, Russia expresses interest in Washington joining the process. In this context, the renewal of U.S. – Russia dialogue on Afghanistan in the context of the NATO – Russia Council could be a positive sign.

Conclusions

Before the withdrawal of U.S. troops from Afghanistan and shortly thereafter, the expert community considered several scenarios regarding the further development of the situation in Afghanistan. One of the most optimistic and preferable scenarios envisioned the current regime remaining in power and being able to secure stability and the steady development of the country. Other less-optimistic scenarios see the opportunity to secure only partial control by the central authorities over regions, the de facto geographic and political defragmentation of the country, a slide towards chaos and "war of all against all" and ultimately the Taliban's total control over the country.

Despite remaining pressure by the armed opposition and lack of internal unity of the Afghan authorities, the worst-case scenario has been avoided over the last two years. Military operations have been carried out, the economy has floated and some announced reforms have been implemented. However, it is clear that this would not have happened without the presence of NATO troops (which take part in all Afghan National Army high-profile operations against insurgents), full fledged financial and other support for Afghanistan's security forces by Western countries and other members of the world community and their direct financial injections into the country's

economy. Meanwhile, it is doubtful that by 2024 the national unity government will succeed in tackling all key challenges while carrying out its 10-year program of social and economic reform. Completion of the reforms will definitely require time beyond this period.

A long period of internal confrontation lies ahead, even if some formal agreements on peace or truces are reached. Moreover, the national unity government's remaining course for reconciliation with the armed opposition, backed by the world community, provides some basis for thinking that Afghanistan tilts, although slowly and with back-steps, toward the hybrid option of tackling the challenge by sharing power with proactive Islamic opposition and establishing a kind of coalition with it (although probably with a limited timespan). However, it is necessary to significantly weaken the opposition to arrive at the negotiating table, and that remains quite problematic. The opposition's letter to U.S. President-elect Donald Trump in November 2016 made clear the Taliban's continuing demand for the withdrawal of U.S. troops.¹² This approach was backed by Hekmatyar and, to a great degree, by former President Karzai. Before the U.S. presidential election in 2016 the lower house of Afghanistan's parliament had called again for revision of the security cooperation agreement with Washington which, among other things, had not only failed to ensure stability in the country but had aggravated it. For his part, President Ghani highlighted Washington's role as an "important strategic partner of Afghanistan in its fight against terrorism" and expressed hope for further development of bilateral relations.¹³

Needless to say, while the bulk of the armed opposition is reluctant to embrace the policy of national reconciliation announced by Kabul, the national unity government's viability depends totally on military and financial support from the U.S. and NATO. The severe aggravation of the situation in northern Afghanistan in 2015 made Washington delay the withdrawal of U.S. troops in 2016. That could have happened in 2017 but the final decision was left for the new U.S. administration led by Donald Trump. Although during his election campaign he was very skeptical about Washington's involvement in the IRA conflict, he nevertheless confirmed the commitment to the strategic partnership with Afghanistan and made clear the possibility of a troop surge in Afghanistan. The commanders of NATO troops in Afghanistan have openly backed the Alliance's troop surge. Kabul keeps a close watch on the details of current Washington policy and seeks by all means (including speculation about the "Russia factor") to encourage the U.S. to reinforce its Afghanistan policy in the style of former U.S. President Barack Obama.

Kabul, in this context, was impatient to learn how the White House's policy towards Afghanistan would evolve under President Trump. The new Afghan strategy, brought into action after long contemplation and calculation, dispelled the illusions concerning capabilities of Washington to consider substantial corrections to its policy towards Afghanistan. President Trump tried to distance his administration from claims made by

¹² According to khaama.com, 12 November 2016.

¹³ According to president.gov.af/en (Press Release), 9 November 2016.

the previous administration concerning firm and timely support for Kabul. He indicated that the U.S. will not intervene in matters of statecraft in Afghanistan, but emphasized the intention to concentrate on providing support for the Afghan security forces in their struggle against the armed opponents of the regime. In this case, withdrawal of the U.S. forces is not only the matter of doubtful future – the U.S. military presence is to be further increased. The strict reaction of the Taliban to these announcements is a preface to a new phase of conflict in Afghanistan. This is amplified by the fact that President Trump advocated for more active participation by India in Afghan issues when amending President Obama's "AfPak" conception. At the same time, President Trump sharply criticized Pakistan, blaming the country for its direct support of regional terrorist activity. All these factors led to active protest in Islamabad and China.

In keeping with Russia's skeptical appraisal of the "old-new" Afghanistan strategy adopted by the Trump administration, it is very unlikely that the Afghan conflict will move towards reconciliation in the near future. That would require new approaches from Washington. However, a radical "reload" of the U.S. strategy towards interior and international aspects of the Afghanistan crisis can be realized only if accompanied by general changes in its perception of its global strategic interests, which is unlikely.

The open and transparent cooperation of external actors as well as their forbearance from the temptation to seek unilateral advantages at the expense of their partners' interests (including the Afghan partners) should be a key element in promoting the Afghan peace process. Taking into account the history of the conflict in Afghanistan, it is quite clear that different factions in the incumbent national unity government as well as outside the government (including the Taliban) will seek to secure special support outside and inside the country with a view to impose their own decisions on other actors. It will be difficult to overcome this trend, especially given the deep mutual distrust not only between the U.S. and Russia but also between the U.S. and China, the U.S. and Iran, India and Pakistan, Afghanistan and Pakistan, and so on. These factors predetermine opportunities by laying the groundwork for biased and prejudiced interpretations of the other side's intentions, allowing actors to secure their own interests at the expense of the common strategic goal to promote peacemaking and the establishment of a negotiation process for national reconciliation. For these reasons, many new and unexpected challenges lie ahead.

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Афганистан после 2014 года¹

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После вывода из Афганистана основной части воинского контингента США обстановка в стране не только не претерпела радикальных позитивных изменений, но и имела тенденцию к обострению. Правящая элита, несмотря на поддержку Вашингтона и Запада, не смогла обеспечить необходимого единства, а сформированное после президентских выборов 2014 г. правительство оставалось шатким и политически уязвимым. Экономика функционировала в основном благодаря внешним финансово-экономическим вливаниям. Запущенная десятилетняя программа становления на путь самообеспечения не дала каких-либо ощутимых результатов.

Правительству не удалось запустить и переговорный процесс с вооруженными оппонентами, выступавшими за окончательный вывод войск США и НАТО. В руках талибов по-прежнему остается значительная часть территории страны. Наряду с интенсивными боевыми операциями проводились крупные террористические акты в городах, включая Кабул. Параллельно набирало силу и присутствие в Афганистане боевиков ИГИЛ.

Соседние государства, включая Россию, выражают серьезное беспокойство в связи с нестабильностью в Афганистане, расширением деятельности ИГИЛ, опасностью распространения с территории ИРА наркотиков и терроризма. Расценивая сложившуюся ситуацию как потенциальную угрозу безопасности региона, они оказывали содействие Кабулу и его курсу на национальное примирение. Москва изучает возможность расширения региональной составляющей решения афганской проблемы.

Приход к власти в США новой Администрации не внес каких-либо новых корректив в политику Вашингтона в Афганистане. Более того, рассматривалась, в том числе параллельно с НАТО, возможность расширения военного присутствия в этой стране, что в итоге может обострить афганский конфликт.

Ключевые слова: Афганистан; национальное примирение; талибы; ИГИЛ; политика США; Россия

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¹ Первая версия статьи поступила в редакцию в марте 2017 г.