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Global shocks, regional conflicts and the quest for stable prosperity: Which way forward for China and Russia?

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# Global shocks, regional conflicts and the quest for stable prosperity: Which way forward for China and Russia?<sup>1</sup>

Eugenia Baroncelli

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## 1.1 Introduction

Since the end of the Cold War, limited domestic political representativeness and increasingly liberal market policies, particularly in trade relations with the rest of the world, have coexisted in China and Russia. In the first decade of the new millennium, the mix between rising economic performance and repression of domestic dissent through coercive practices has been a stable –albeit socially regressive- equilibrium. Several changes have affected that balance: the global crisis of 2008-2010 first, the militarized dispute that erupted between Russia and Ukraine in March 2014, the Russian recession of 2014-2015 and the Chinese credit crisis of 2015. Overall, China has exerted a stabilizing power on the global economy, leading the worldwide recovery after the crisis (Lin 2011). Even though it produced the bursting of a currency bubble in August 2015, the country's devaluation did not result in a shock like the one that hit Asia twenty years ago. On the contrary, Russia has struggled to recover from post-crisis reduced world demand, and subsequently reduced quantitative easing by the main advanced economies. The country's war with Ukraine, and the anti-Russian economic sanctions by the US and EU, have further strained its economic situation, triggering a downward spiral in both oil and currency prices. Since 2016, Russia's assertive military intervention in

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<sup>1</sup>I am grateful to Michele Fenzl for his excellent research assistance. I also wish to thank the participants in the ISA-CISS Conference 'Cooperation and Contestation in World Politics' (Bologna, June 28-30 2017) and the Conference 'Russia and China in the Global World' (Forlì, December 14-15, 2017) for their useful comments and insights.

Syria has further complicated the country's relationship with the West. In turn, Washington's unilateralist twist, coupled with the uncertainties of 'Brexit EU', have provided multiple occasions for China and Russia to widen the scope of their foreign policy aspirations.

By examining key economic trends, the chapter outlines the two countries' positions in the global economy (section 1.2). From this vantage point, and by engaging with the political economy literature on the relation between domestic institutions and economic performance, it then discusses the sustainability of the current Russian and Chinese models of development, (Section 1.3). Subsequently, the analysis connects such trends to the major simultaneous dynamics in the global political economy. First, based on IR scholarly research on policy roles, an inside-out perspective is adopted to explore the implications of China and Russia's domestic choices for the global economy, and for the broader construction of their foreign policy roles (Section 1.4). The focus then shifts to outside-in dynamics (Section 1.5), to investigate the net effect of key external developments on the evolution of China and Russia's foreign policy roles and performances. The global crisis and recession of 2008-2010, the international responses to the war in Eastern Ukraine, the protracted conflict in the Middle East, North Korea's nuclear challenges, and the US unilateralist turn are singled out as particularly consequential occurrences. Speaking to the IR literature on the relation between evolving polarity, norm change and systemic order transition, the chapter concludes on the implications of the dynamic interaction between external drivers and the two countries' policy choices, respectively, for the future of international politics.

## 1.2 China and Russia in the Global Economy of the third millennium: Past achievements and future trajectories

### 1.2.1 GDP and growth patterns: China's ascendancy and Russia's setbacks

China is currently the second largest economy in the world, an upper-middle income country with a share of almost 12% of world GDP (worth USD 8.91 tn in 2015), second only to the United States (US) (with a GDP worth USD 16.67 tn, or 24.23% of 2015 world GDP). Accounting for the largest portion of the

BRICS (Brazil, Russia, India, China, South Africa) GDP share (USD 15.62 tn in 2015, or 20.64% of world income), China’s contribution is key to bringing the group up to slightly below the EU’s share (at USD 17.96 tn, or 23.73% of world GDP in the same year). Since 2005, Russia too has entered the group of upper middle income countries, but has remained at the lower end of their combined GDP performance (World Bank 2016). Its economic weight is below the top 10 world economic systems, with the country ranking 11<sup>th</sup> with a GDP of USD 1.66 tn in 2015 (2.19% of total world GDP).

Table 1. Major World Economies by GDP

2015	Country	GDP 2015, USD tn (constant 2010)	2010	2005	2000
1	US	16.67	1	1	1
2	China	8.91	2	3	5
3	Japan	5.99	3	2	2
4	Germany	3.71	4	4	3
5	France	2.78	5	5	4
6	U.Kingdom	2.71	6	6	6
7	Brazil	2.33	7	8	8
8	India	2.30	9	12	14
9	Italy	2.06	8	7	7
10	Canada	1.80	10	9	9
11	Russian Fed.	1.66	11	11	11
12	Spain	1.42	12	10	10
13	Australia	1.31	13	13	13
14	Korea, Rep.	1.27	14	15	16
15	Mexico	1.21	15	14	12

Source: World Bank, World Development Indicators – hereinafter WDI 2016. Ranks refer to country shares in world GDP

With a mean GDP growth of 9.98% between 1991 and 2015, China has outperformed other advanced economies, as expected according to catching up hypotheses but, more substantially, it has also topped the already impressive performance of other BRICS (Fig.1).<sup>2</sup> Projections for the next two years indicate that the Chinese economy will keep growing at rates above 6% (6.454% in 2017, 6.346% in 2018). As discussed below, however, the gradual decline of the Chinese GDP growth rate is likely to have a longer term impact on regional and global economic trends for the years to come.

<sup>2</sup> For the same period, World Bank data indicate that the mean GDP growth for the US has been 2.56%; and in the EMU region 1.46%.

China has also recorded a sizable improvement in individual income levels, even discounting for its spectacular demographic performance, which has brought the country's 600 million citizens in the 1960s to the current 1.3 bn individuals. The shift to 2-digit GDPpc growth rates occurred between 2005 and 2007, with an average rate of GDPpc income growth of 12% (World Bank WDI)<sup>3</sup>. China tops the other BRICS: between 1990 and 2015, GDPpc has grown on average by 0.66% in Russia; 0.62% in South Africa; 1.18% in Brazil; and 4.77% in India.<sup>4</sup> The evidence points to a pattern that reconciles population dynamics with other growth drivers, along a steady path of system-wide economic development.

Trends relative to absolute GDPpc indicate that the average Chinese individual has experienced a marked improvement in economic security, particularly when compared to citizens from other BRICS (Fig.1). In 1990 the average Chinese citizen earned USD 316 per year, against USD 375 earned by the average Indian citizen, with a South African in the range of USD 1,000 plus, and Russians and Brazilians above USD 3,000. In 2015, the average Chinese earned USD 7,925, per year against a mere 1,582 USD for the average Indian, with Russians in the range of USD 9,000 and Brazilians in that of USD 8,500. China's 'compensatory jump' is particularly astonishing when compared to the once-star performer in Sub-Saharan Africa. If in 1990 the average South African citizen had a yearly income more than 10 times higher than the average Chinese, in 2015 the average Chinese had an income 1.39 times higher than the average South African.

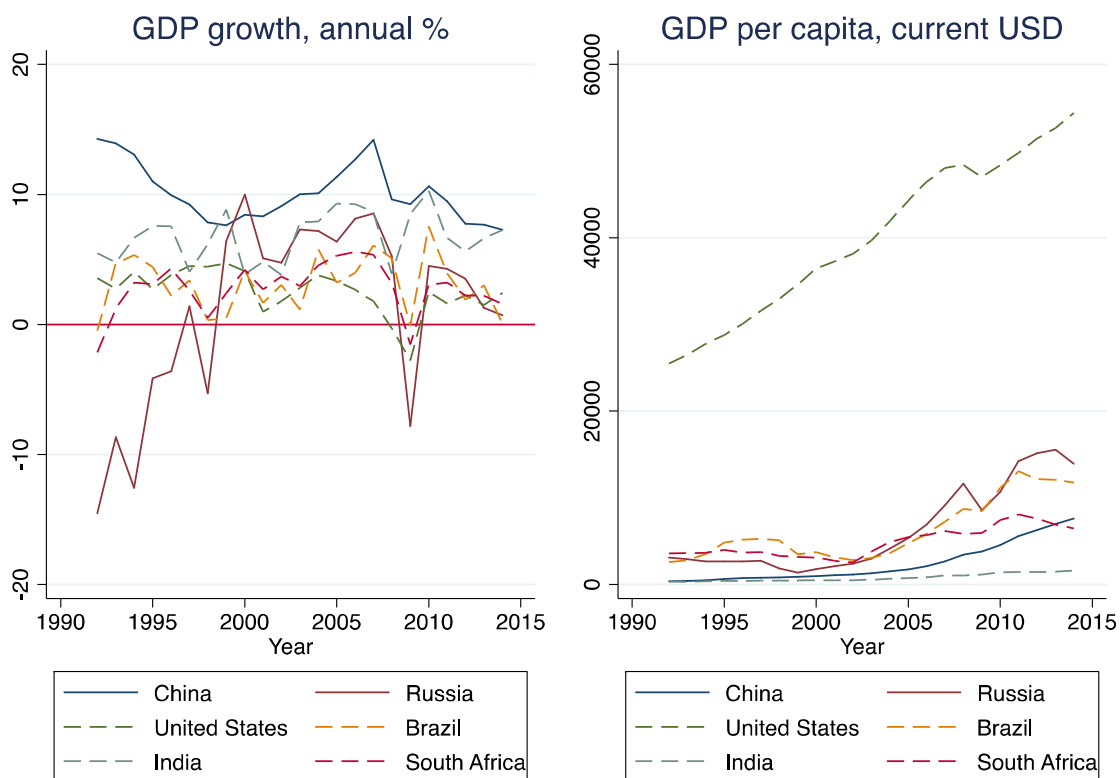
Compared to industrialized economies, China's performance in per capita income levels is even more pronounced. World Bank data indicates that between 1991 and 2015, China's GDPpc growth rate averaged 8.87%. In the same period, GDPpc has grown on average 1.39% in the US, and 1.44% in the EU. However, the gap between average individual income levels remains wide for the two upper-middle income countries of China, Russia and, respectively, the US (USD 55,837 in 2015) and the EU (USD 31,843).

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<sup>3</sup> Calculated as the simple average of growth rates in years 2005 to 2007.

<sup>4</sup> Data on yearly growth rates of GDP per capita between 1991 and 2015 – not reported in detail here- are from WDI (2016).

Figure 1. The BRICS and the US: Trends in GDP growth and GDPpc



Source: World Bank WDI 2016

Source: World Bank WDI 2016

In spite of remarkable results in the yearly GDPpc growth rate in 2007 (8.535%), Russia has conversely plunged into a steep decline, reaching negative 7.821% in 2009, recovering in the following years up to 4.5% in 2010, to experience another precipitous decline (-3.74%) in 2015 (WDI 2016). Since the third quarter of 2014, the country entered a recession, which closely followed the downturn in oil prices and the economic effects of EU and US sanctions of July 2014. In the second quarter of 2015, Russian GDP growth plunged below -4%. Since the first quarter of 2016 the deceleration of the economy has slowed down, however, thanks to a dedicated policy response package. Among others, and to cushion the shock, the Russian government undertook a policy of a more flexible exchange rate, cuts in real expenditures and bank

recapitalization (World Bank Russia Economic Report 2016). Overall, the country is projected to recover (overall positive 1.5% in 2017), up to 1.8% in 2018 (WDI 2016). Russia’s policymakers have worked on a new fiscal rule to consolidate the federal budget, via a three-year budget law (2017-2019) which will come into effect in 2019 (World Bank Russia Economic Report 2017). Based on low oil price baselines, the new fiscal rule envisages cuts in national defence (-1.8% GDP), social policies (-0.5%) and national security (-0.4%), as well as transfers from state controlled companies and increased tax revenue from energy, to get to a -1.2 fiscal balance in 2019, from the -3.7 level of 2016 (World Bank Russia Economic Report 2016). Russia’s trajectory puts the country just behind that of other OECD mature industrialized economies: its stagnant performance is compatible with that of a mid-income country that is striving to achieve higher status in the world economy. Overall, however, the high dependence of Russian GDP on oil and oil-related exports puts a non-trivial constraint on the country’s future process of catching up.

### 1.2.2 China and Russia’s performances in the world economy: Trade and FDI

Since 2005 China has gained 2 spots in world trade rankings, surpassing Germany and the US (Table 2 below). In spite of recent losses, Beijing still tops the list of world exporters with USD 2.27 tn and a share of 13.8% in total world exports<sup>5</sup>. While increasing the value of its total world exports (from USD 243,80 bn in 2005 to USD 340,35 bn in 2015) Russia has on the contrary lost two spots from its pre-crisis rank (13<sup>th</sup> world exporter), shifting to 15<sup>th</sup> position.

Table 2. Top World Exporters, 2005 and 2015

Country	2015 Rank	2005 Rank	2005-2015 Change in Rank	2005	% WLD 2005	2015	% WLD 2015
China	1	3	2	7.62E+11	7.25	2,27E+12	13.80
US	2	2	0	9.01E+11	8.57	1,5E+12	9.13
Germany	3	1	-2	9.71E+11	9.24	1,33E+12	8.07
Japan	4	4	0	5.95E+11	5.66	6,25E+11	3.79
Netherlands	5	6	1	4.06E+11	3.87	5,67E+11	3.44

<sup>5</sup> The US and Germany follow with USD 1.5 tn, 9.13% of world exports, and USD 1.3 tn, or 8% of world exports, respectively (WDI 2016).

Korea, Rep.	6	12	6	2.84E+11	2.71	5,27E+11	3.20
Hong Kong SAR, China	7	11	4	2.92E+11	2.78	5,11E+11	3.10
France	8	5	-3	4.63E+11	4.41	5,06E+11	3.10
United Kingdom	9	7	-2	3.91E+11	3.72	4,6E+11	2.79
Italy	10	8	-2	3.73E+11	3.55	4,59E+11	2.78
Canada	11	9	-2	3.6E+11	3.43	4,08E+11	2.48
Belgium	12	10	-2	3.34E+11	3.18	3,98E+11	2.42
Mexico	13	15	2	2.14E+11	2.04	3,81E+11	2.31
Singapore	14	14	0	2.3E+11	2.18	3,51E+11	2.13
Russian Federation	15	13	-2	2.44E+11	2.32	3,4E+11	2.06
World				1.05E+13		1,65E+13	

Source: World Bank, WDI. Total Merchandise Export Values (current USD)

Between 2005 and 2015, China has managed to almost double its share of world imports, rising from 5.09% to 9.82% and becoming the world's second largest importer after the US and Germany (See Table 3 below). With the expected rise in the purchasing power of its growing middle class, China will further expand its potential as a global engine for trade and worldwide growth. In turn, while still the first world importer, the US has witnessed a compression of its share over the same period, declining from 15.94% to 13.37%. Russia was the 20<sup>th</sup> world importer in 2015, accounting for 1.35% of world imports, compared to 1.29% in 2000.

Table 3. Top World Importers

Country	2000	2005	2010	2015	2016	2015 Rank	% WLD 2015	% WLD 2005
US	1.473E+12	2.030E+12	2.365E+12	2.786E+12		1	13.37	15.94
China	2.243E+11	6.487E+11	1.380E+12	2.046E+12	1.950E+12	2	9.82	5.09
Germany	5.959E+11	9.351E+11	1.266E+12	1.319E+12	1.330E+12	3	6.33	7.34
United Kingdom	4.393E+11	6.870E+11	7.524E+11	8.361E+11	7.854E+11	4	4.01	5.40
Japan	4.494E+11	5.946E+11	7.739E+11	7.872E+11		5	3.78	4.67
France	3.707E+11	5.902E+11	7.391E+11	7.597E+11	7.680E+11	6	3.65	4.64
Hong Kong SAR, China	2.088E+11	3.000E+11	4.560E+11	5.987E+11	5.945E+11	7	2.87	2.36
Netherlands	2.475E+11	3.931E+11	5.319E+11	5.379E+11	5.390E+11	8	2.58	3.09
Korea, Rep.	1.850E+11	3.087E+11	5.060E+11	5.306E+11	5.002E+11	9	2.55	2.42
Canada	2.867E+11	3.849E+11	5.000E+11	5.275E+11	5.104E+11	10	2.53	3.02
Italy	2.833E+11	4.588E+11	5.771E+11	4.947E+11	4.907E+11	11	2.37	3.60
India	6.497E+10	1.833E+11	4.489E+11	4.700E+11	4.671E+11	12	2.26	1.44
Singapore	1.695E+11	2.503E+11	4.107E+11	4.512E+11	4.344E+11	13	2.17	1.97
Mexico	1.836E+11	2.427E+11	3.266E+11	4.270E+11	4.183E+11	14	2.05	1.91
Belgium	1.647E+11	2.706E+11	3.610E+11	3.698E+11	3.827E+11	15	1.77	2.13
Spain	1.883E+11	3.433E+11	3.840E+11	3.666E+11	3.716E+11	16	1.76	2.70
United Arab Emirates		9.386E+10	2.291E+11	3.437E+11	3.538E+11	17	1.65	0.74
Switzerland	1.251E+11	1.902E+11	3.111E+11	3.434E+11		18	1.65	1.49
Australia	8.908E+10	1.441E+11	2.332E+11	2.843E+11	2.540E+11	19	1.36	1.13
Russian Federation	6.242E+10	1.643E+11	3.224E+11	2.814E+11	2.637E+11	20	1.35	1.29



World	7.902E+12	1.273E+13	1.844E+13	2.083E+13	2.036E+13
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Source: World Bank, WDI. Imports of goods and services (current USD)

In the long run, China and Russia's trade performances replicate dynamics that are similar to those recorded in income levels, respectively, with China experiencing a stellar performance and Russia lagging behind. Along with data on FDI, trade records convey key information about the two countries' patterns of opening to the world economy since their shift to market-based systems. As such, they proxy the ability of the Chinese and Russian leaderships to integrate their countries into global markets. They also convey, however, information on how the global environment has adapted to their domestic changes, with recent adjustments reflecting the rebalancing of the Chinese economy and Russia's response to the glut in fuel.

Since the 1990s, China has moved upward from trade-to-gdp ratios in the range of 30%, doubling openness rates in 2005-2007 above 60%<sup>6</sup>. On average between 2009 and 2014, China's share of merchandise trade in GDP has fallen to 45.42%, declining to 36.41 % in 2015, as the rise in per capita income levels has also opened domestic demand and widened opportunities for Chinese producers to sell in a fast-growing domestic market. In line with this relative contraction, and with the broader compression in world trade values, the annual percentage growth rate of China's trade value has been negative (-7.58), vis à vis an overall value of -4.43 percentage points in world trade for 2016 (WITS 2018). The decline in import demand from emerging Asian countries is not the only factor that accounts for the relative contraction in world trade (with just 1.7 % increase in merchandise import growth in 2015, down from 3 % in 2014). It seems however that both the fall in commodity prices and China's transition to a new, slower growth pattern (as well as the rebalancing from investment to consumption, and, within investment, from goods to services) have played a major role in that contraction<sup>7</sup>.

China's current top markets for exports are the US (1), the EU (2) (particularly Germany), Hong Kong (3) and South Korea (4), its main import partners being South Korea (1), the US (2), Asian n.e.s (3) (proxy label for Taiwan, not allowed to report as a country by the UN system for diplomatic reasons), and

<sup>6</sup>See Table A1 in the Appendix.

<sup>7</sup> Other major determinants of the broader slowdown in trade include a slower pace of trade liberalization and maturation of global value chains (Hoekman 2015).

Japan (3) (WITS 2016). Lower Chinese demand for manufactured goods (particularly in investment-related import-intensive sectors) from Asian exporters has been quoted as a main driver in the slowdown in 2015 world trade (also dubbed ‘the new normal’), as seen above. China is also a major importer of commodities (13 % of world commodities, and up to 40% percent in selected metals), so its lower demand for primary or minimally processed goods has exerted an additional negative impact on world trade values (Constantinescu et al 2016).

The deterioration in fuel prices since 2014 has further contributed to declining trade values, and has been particularly problematic for Russia and other oil-exporting economies. Reduced supply and import capacity from Russia and other Asian trade partners (namely Kazakhstan among oil producers) account for up to one quarter of the contraction in Chinese exports in 2015 relative to 2014 (Constantinescu et al 2016). The reduction in China’s GDP growth rate and the depreciation of the renminbi in July 2015 further contributed to reducing Chinese exports in that year (idem).

The potential for trade growth in manufacturing will depend on the further (expected) contraction in Chinese demand. However, the gradual shift from investment to consumption that is taking place in the country will open up opportunities for foreign producers of final-consumer goods. Improvement in income and real wages for Chinese citizens, with the diffusion of enhanced purchasing power to growing numbers, will increase such demand in China, with potential growth for Chinese imports from abroad. Labour dynamics (including internal migration vs migration to neighboring countries with lower labour costs) may however have contrasting effects on these changes.

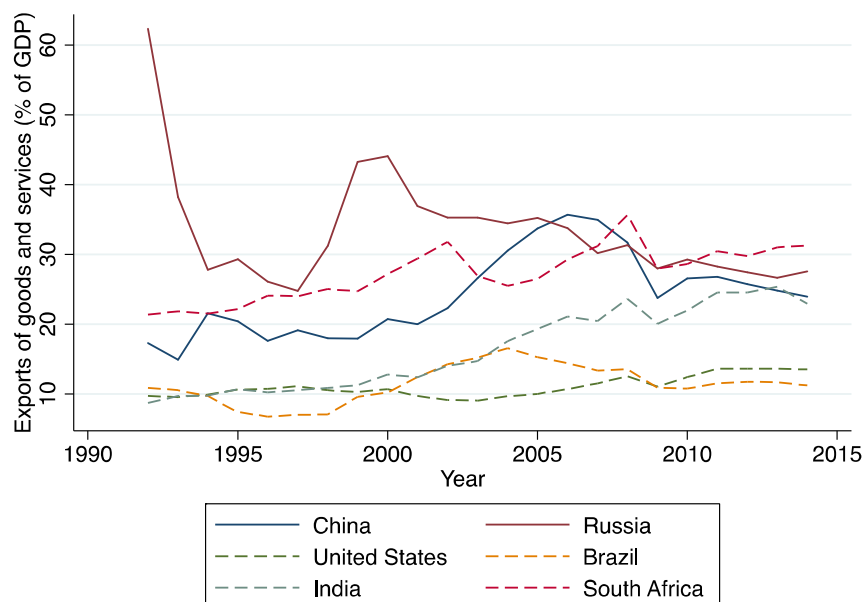
Along with Russia and South Africa, China has been on average the most active among the BRICS in pursuing an export-led growth strategy (see Figure 2 below). However, while China has been on an upward trajectory since the early nineties, cushioning the post-crisis fall in world demand and regaining some positive margin in trade-to-GDP above 40%<sup>8</sup>, Russia has followed an opposite trend. The country started from very high levels of trade to GDP in the years of its inception in the international system, followed by lows (1997) and highs (2000). Exportwise, however, Moscow has since been on a downward

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<sup>8</sup> See Table A1 in the Appendix.

trend, and on a particularly unstable path (see Figure 2)<sup>9</sup>. Such dynamics can be accounted for by trends in crude oil prices, oil and related products being the main commodity in the country's export basket. In 2015, the top 5 products exported by Russia were indeed petroleum oils (crude) (1), oils excluding crude and preparations (2), natural gas (gaseous) (3), bituminous coal (4) and natural gas (liquefied) (5) (WITS 2016).

Figure 2. BRICS and the US: Exports as a share of GDP



Source: World Bank, WDI.

According to WTO statistics, in 2014 Russia was the 11<sup>th</sup> largest exporter of merchandise goods, and the 22<sup>nd</sup> for commercial services (WTO 2015). This places Russia on the second spot for both trade types when only considering BRICS economies – with China ranking first for both types.<sup>10</sup> In 2014, 35% of Russia's exports were accounted for by items in crude petroleum, 20% in refined petroleum, and 8.0% in petroleum gas (Observatory for Economic Complexity – OEC- 2014). In that same year the EU was the main outlet for Russian exports, absorbing 57% of the country's exported goods and services. The three top

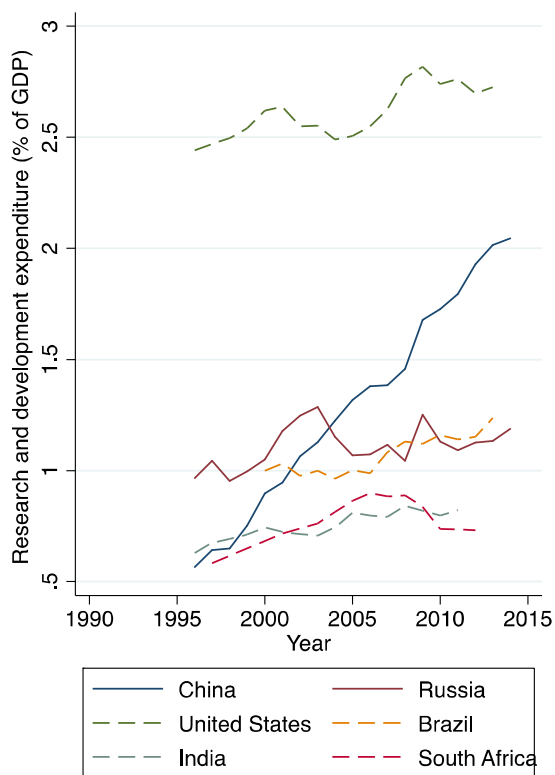
<sup>9</sup> Yearly data are also reported in Table A2 in the Appendix.

<sup>10</sup> In 2014 China was the leading exporter worldwide for merchandise goods, and the 5<sup>th</sup> for commercial services. For commercial services, only advanced economies such as the US, the United Kingdom, France, and Germany outperformed China.

destinations for Russian exports were the Netherlands, accounting for 8.7% of Russia’s exports; China, with 8.7%; and Germany, with 6.6% (idem).

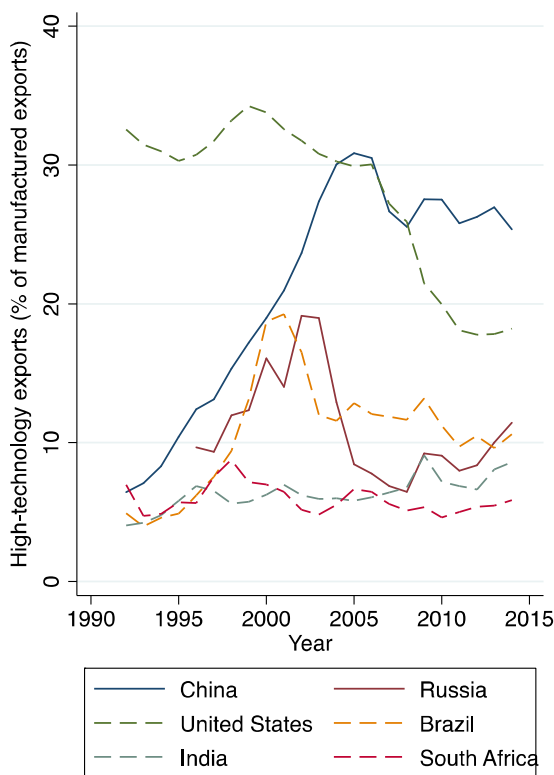
Tradewise, China has not only managed to increase volumes, but most importantly, has diversified sectors and intensified the level of technological sophistication of its export products (Fig. 3 and 4 below). Behind such performance lies China’s enhanced investment in research and development, which has been increasing throughout the past 15 years. As of the 2000s the country has indeed become the largest investor in R&D among the BRICS. By 2015 China had almost doubled its R&D spending as a share of GDP, rising to 1.73% from 0.90% in 2000<sup>11</sup>. The evidence suggests that increased volumes of technology-intensive tradables may have responded to strategically placed policy incentives for research (Xiong et al 2018).

Figure 3. BRICS vs US: R&D in GDP



Source: World Bank. WDI.

Figure 4. BRICS vs US: High-Tech Exports in Manufactured Exports



Source: World Bank. WDI.

China has been one of the major recipients of long-term investment throughout the past 15 years (See Table 4). At the turn of the millennium it accounted for 2.88% of the world’s total FDI inflows and was

<sup>11</sup> See Table A3 in the Appendix.

ranked the 7<sup>th</sup> recipient of FDI worldwide. In 2015, China moved up to become the second largest recipient of FDI inflows, accounting for 10.44% of world total inflows, worth 242 bn USD in that year, around half of the US's FDI absorption which accounted for almost 22% of world total FDI inflows (USD 506 bn). This trend further confirms Beijing's potential to take on the role of global growth engine, in both trade and investment. Russia too has witnessed an expansion of net FDI inflows between 2000 and 2015 (from 2.7 bn to 6.8 bn, with growth in its share from 0.18% to 0.30%), even though its rank among FDI recipients has declined from 20<sup>th</sup> to 39<sup>th</sup> position.

Table 4. FDI, net inflows

Country	2015 mn	2015 rank	% wld (2015)	% WLD 2000	2000 rank	Country	2000 mn
World	2322454.03	-					1461012.74
European Union	580656.11		25.00	48.54			709128.69
US	506161.00	1	21.79	23.96	1	US	350066
China	242489.33	2	10.44	16.97	2	Germany	247986.59
Ireland	203463.37	3	8.76	11.23	3	United Kingdom	164130.33
Hong Kong SAR, China	181047.43	4	7.80	4.83	4	Hong Kong SAR, China	70495.74
Netherlands	129749.72	5	5.59	4.68	5	Canada	68309.24
Switzerland	97577.57	6	4.20	4.32	6	Netherlands	63118.80
Brazil	74693.63	7	3.22	2.88	7	China	42095.3
Singapore	70579.75	8	3.04	2.83	8	France	41382.27
Cayman Islands	63448.12	9	2.73	2.77	9	Spain	40489.48
United Kingdom	58450.56	10	2.52	2.26	10	Brazil	32994.72
Canada	54702.38	11	2.36	1.75	11	Ireland	25501.01
Germany	52576.91	12	2.26	1.58	12	Switzerland	23080.88
India	44009.49	13	1.89	1.26	13	Mexico	18382.28
Australia	36595.01	14	1.58	1.06	14	Singapore	15515.29
France	34968.75	15	1.51	1.02	15	Australia	14892.98
Mexico	33181.27	16	1.43	0.55	16	British Virgin Islands	8097.4
British Virgin Islands	28854.72	17	1.24	0.52	17	Cayman Islands	7626.86
Spain	25299.04	18	1.09	0.33	18	Chile	4860.01
Chile	20468.71	19	0.88	0.25	19	India	3584.22
Indonesia	19779.13	20	0.85	-0.31	21	Indonesia	-4550.35
Russian Federation	6852.97	39	0.30	0.18	20	Russian Federation	2678.03

Source: net inflows expressed as BoP, current USD (World Bank WDI).

The reach of Chinese foreign direct investment across the globe has constantly increased, with a jump from USD 4.6 bn in 2000, when the country ranked 17<sup>th</sup> among top country sources of FDI, accounting for 0.33% of world total FDI net outflows, to USD 174.39 bn in 2015, which earned China the third position in the list of top country-sources of FDI, accounting for 9.27% of total world FDI net outflows (See Table

5). As a result, China's level of outward FDI has reached one half of FDI outflows that originate in the US – the top worldwide source. While close to China in 2000, with a total of USD 3.2 bn in FDI outflows, Russia has remained the 18<sup>th</sup> FDI supplier worldwide in 2015, even though its share in total net FDI outflows has grown from 0.23% (2000) to 1.17% (2015), almost a sevenfold increase.

Table 5. FDI, net outflows

Country	2015 mn	2015 rank	% WLD 2015	Country	2000 mn	% WLD 2000	2000 rank
World	1880685.98			World	1403427.65		
European Union	562781.73		29.92	European Union	908359.27	64.72	
US	311137	1	16.54	US	186370	13.28	1
Ireland	183213.50	2	9.74	France	173566.13	12.37	2
China	174390.68	3	9.27	Germany	98169.90	7.00	3
Netherlands	136776.81	4	7.27	Netherlands	74510.26	5.31	4
Japan	136410.66	5	7.25	Hong Kong SAR, China	69984.25	4.99	5
Switzerland	131293.83	6	6.98	Spain	59072.42	4.21	6
Germany	112504.18	7	5.98	Switzerland	47305.93	3.37	7
Canada	80619.73	8	4.29	Canada	46651.75	3.32	8
Hong Kong SAR, China	78514.94	9	4.17	Japan	45027.49	3.21	9
British Virgin Islands	76169.4	10	4.05	Sweden	40232.72	2.87	10
Spain	57828.19	11	3.07	British Virgin Islands	37144.6	2.65	11
Cayman Islands	57746.75	12	3.07	Norway	10802.97	0.77	12
Luxembourg	39370.76	13	2.09	Cayman Islands	7238.50	0.52	13
France	33319	14	1.77	Singapore	6848.38	0.49	14
Singapore	31405.23	15	1.67	Korea, Rep.	4842.1	0.35	15
Korea, Rep.	23760.4	16	1.26	Ireland	4628.71	0.33	16
Norway	22134.80	17	1.18	China	4612	0.33	17
Russian Federation	22085.1	18	1.17	Russian Federation	3178.83	0.23	18
Cyprus	17396.31	19	0.92	Cyprus	172.09	0.01	19
Sweden	16779.92	20	0.89	Luxembourg	na	na	20

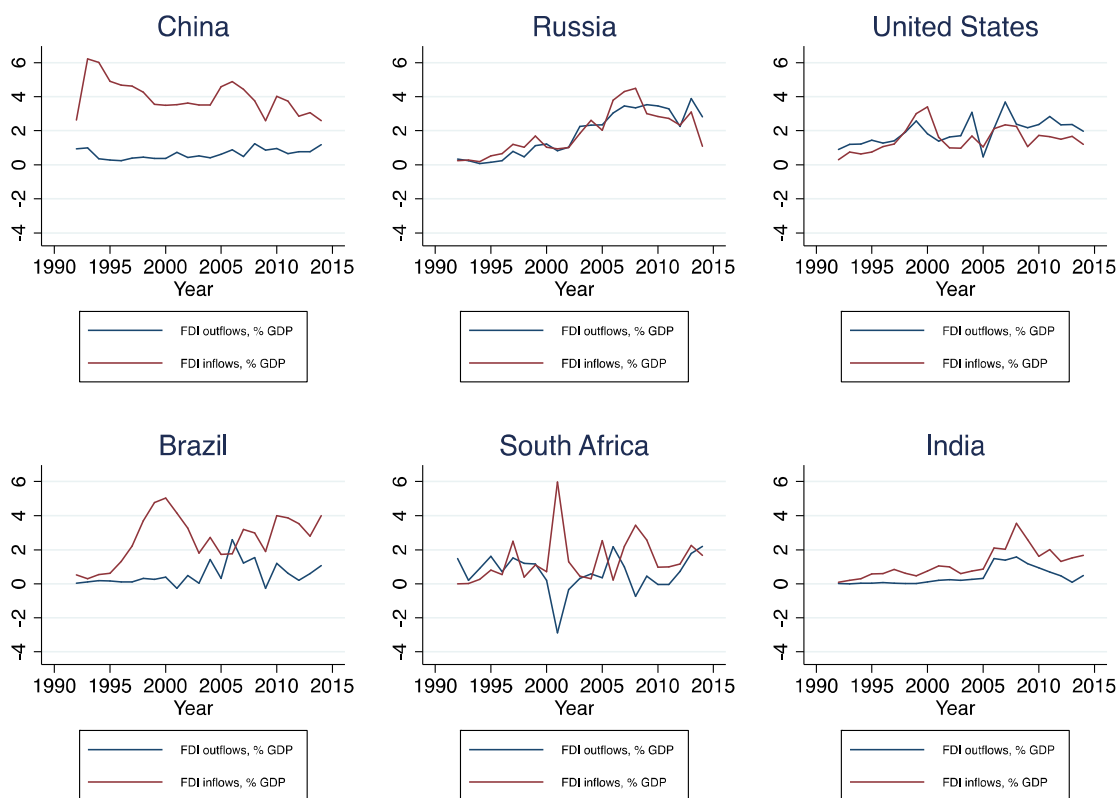
Source: net outflows expressed as BoP, current USD (World Bank WDI).

Relative to domestic patterns, China has experienced a substantial rise in incoming FDI as a share of its GDP in the first half of the 1990s, and then again between 2000 and 2005 (See Figure 5 below).

However, the stellar growth in China's GDP rates from 2000 to 2006 have partially compensated for the rise in FDI inflows, that now account for almost 3% of the country's GDP. Outflows have remained relatively more stable over time, accounting for between 1 and 2% of the country's GDP. Conversely, Russia has undergone significant, simultaneous growth in both inflows and outflows of FDI as a share of its GDP, moving from the 0-2 % range in the 1990s to the 2-4 % range in the first decade of the new millennium.

After 2010 however, the oil crisis first, and the sanctions of 2014 then, have marked declines in both trends, with more severe deterioration in FDI inflows as a share of GDP post-2014, where the share has reverted to the range of 1%.

Figure 5. BRICS vs US: FDI inflows and outflows in GDP (%), 1990-2015.



Source: World Bank, WDI various years.

Economic trends corroborate the view of post-Soviet Russia as an order taker. In the 1990s and 2000s the integration of the country in the global economy has closely followed fluctuations in crude and gas prices, nested in the political contingencies of Moscow's new relations with the transatlantic countries. While the economic reforms adopted by the USSR under Gorbachev were certainly a domestic matter, a notable system-based explanation of the federation's decline can be traced to its failure to keep up with the economic and military competition with the US (Waltz 1993; Oye 1995). Conversely, over the same period,

the policy choices of China's prescient leaders have turned the country into an economic order-maker<sup>12</sup>. The long-term key to Beijing's extraordinary growth performance has been premised on chiefly domestic-institutional (as opposed to externally induced-economic) drivers that were activated over that time span, starting with Deng Xiao Ping's reforms aimed at the country's transition from a centralized economy to a market-based system<sup>13</sup>.

### 1.3 The perils of exclusionary institutions: implications for growth and democracy in China and Russia

Into the second decade of the third millennium China and Russia have widened their reach of new economic partners, and have pursued differential strategies to support growth and modernization of their respective domestic systems. Chinese leaders, in particular, have engaged in liberalization reforms, with the country achieving the status of a regional and, post-2008, global engine for growth. In parallel, studies in political economy have started to explore the consequences of the poor quality of institutional development that has accompanied China's economic transition (Pei 2006). Enduring with low protection of economic rights and lagging regulatory reforms, so it is argued, has made it more difficult for the Chinese leadership to adequately respond to bottom-up domestic demands, and to replicate the spectacular growth performance of the past decades (Huang 2016). According to some, these are constraints that may significantly hinder Chinese efforts to overcome a potential mid-income trap (Cai 2014)<sup>14</sup>.

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<sup>12</sup>Gao (2011) has referred early on to China's wavering among rule-taking, rule-shaking and rule-making in global trade governance; Lee et al (2011) have questioned the shift from humanitarian rule-taker to rule-maker relative to China in Darfur. Subsequent elaborations on the concept include Chen (2016) and Caffarena (2017).

<sup>13</sup> Zhang (2002) highlights the relevance of domestic drivers in China's growth performance.

<sup>14</sup> A different perspective on China's propensity to fall in a mid-income trap is provided by Bulman et al (2016).



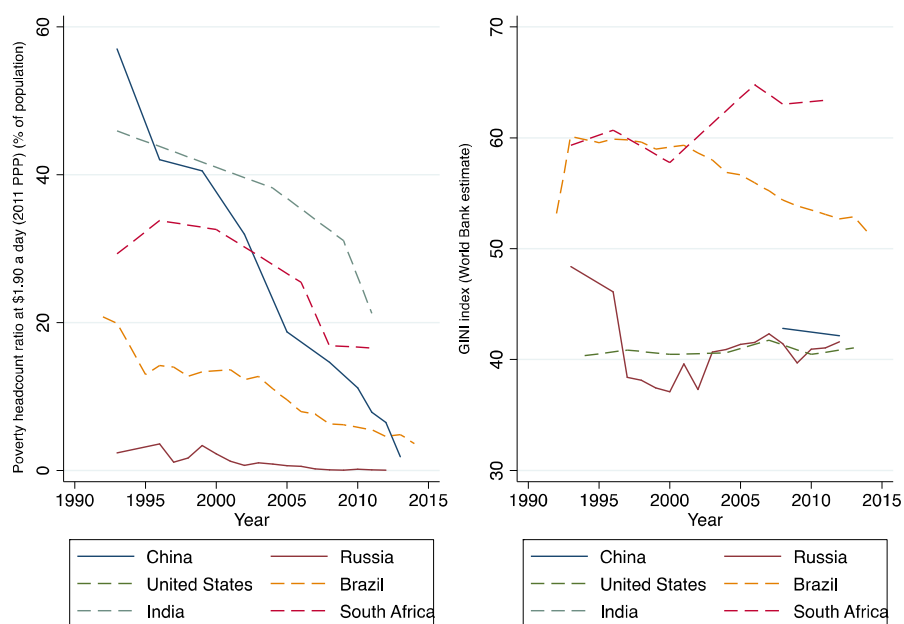
The highlights of China's economic performance illustrated above seem to provide anecdotal evidence of the deeper nexus that exists between institutional evolution and economic growth (Açemoglu and Robinson 2012). Without inclusive institutions, system-wide growth prospects do not appear sustainable over the long term. One key reason is that, once past the level of early innovation stages – the protracted exclusion of a wide strata of citizenry from both the gains of fair fruition of growth and equal voice rights on how to distribute them, deepens inequality in ways that either slow down or altogether impair future growth. Far from being a potential driver for innovation, inequality turns into a sure system-blocking liability. From the standpoint of a rational –selfish- leadership, the key to unlocking the growth potential of a system premised on exclusionary institutions without unduly relinquishing the incumbent's power would be to open up the system politically just as much, and just until the (oligarchic) dividend from (institutional) closure equals the advantages of (marginally higher) political opening.

Examples of political closure that have postponed –and in some cases altogether forgone- economic development abound, both in west European and post-colonial systems. In the first group, Tsarist Russia and Habsburg Austria-Hungary are among the most quoted cases. In the second one, the Ottoman Empire's regressive choices, as opposed to tolerant pre-Ottoman Islamic leaders, are also quoted as showing how innovators that were best performers (certainly the case for Arabic Islam around the year 1000) could lose much of their competitive edge when confronted with the difficulties of creating institutions to balance political and economic freedoms across a large territory and population. Examples from countries in sub-Saharan Africa, that have added to the miseries of colonial subjugation the hardship of exclusionary rule are also manifold, from the Kingdom of Congo, to Ethiopia, or, to an even more serious degree, Somalia. While very different in their specific trajectories, the post-colonial leaders of these countries have in different ways antagonised both innovation and political openness, promoting oligarchic, at times personalistic, discretionary rule-making. Stateness problems have increased the cost of exclusion carried by predatory elites, as the absence of a reference point for lawmaking, interpretation and application has magnified uncertainty, risks and resorting to self-help by violent means to solve controversies between private parties.

Present-day China does not have the stateness problems of rural, war-torn Somalia, and certainly does not face the development hurdles that Ethiopia or the Democratic Republic of Congo must confront

nowadays. Yet in vast rural areas of today's China most citizens are excluded from access to key public goods (health care, livable environment, basic and secondary education) and are *de facto* denied basic voice rights. The negative impact of those conditions is often muted, as it is more-than-compensated for by the size of the working population that has migrated to China's coastal areas, and that has entered into those productive activities that have contributed so much to the Chinese miracle in the past 25 years. The number of poor people living on \$ 1.90 a day in China has decreased from a mean level of 41.30% between 1995 and 2000 to an average of 16.70% for the period 2005-2010 (See Figure 6 below). China alone does account for most of the decline in the number of the world's total poor population between the 1980s and today (Deaton 2013). Yet, the differences have grown between those who have and those who do not inside China (Xie and Zhou 2014).

Figure 6. BRICS Poverty trends



Data source: World Bank, WDI.

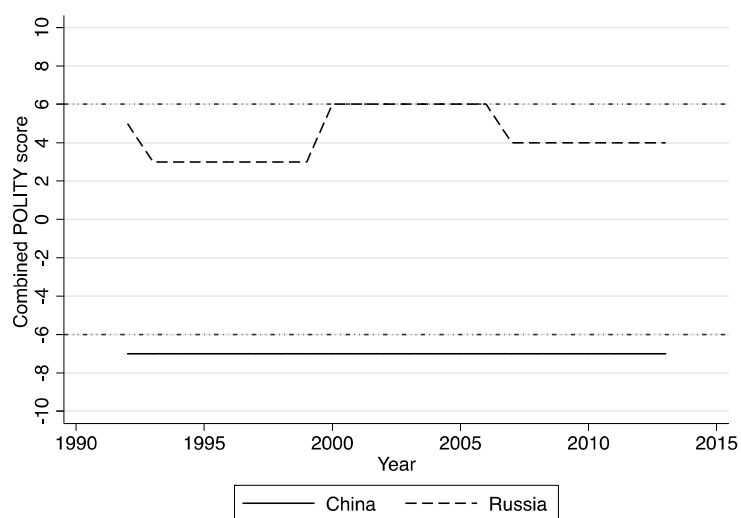
Data source: World Bank, WDI.

Anti-poverty measures are being adopted, but inequality between rural and urban areas is still problematic (Tian et al 2016). Projected over the long run, its effects appear to be even more damaging, as reported by a study on the future effects on Chinese growth of present-day education differentials between children of urban and rural families, respectively (Li et al 2017). The country's current gradual rebalancing away from industrial manufacturing towards consumption, and from manufacturing to services, will also

have implications on domestic inequality, poverty levels and wider sociopolitical stability. On the one side, the gains in per capita income of the average Chinese consumer will increase his purchasing power, strengthen demand for more diversified consumer goods and services, as well as stimulate further advancements on the scale of technological innovation. On the other side, the shift to a consumption economy is also likely to increase unemployment and negatively impact domestic wages. Either lower wages/increased downward labour market flexibility, or migration to lower cost neighbouring producers are all possible. A growing middle-class, better educated and more demanding (increasingly aware of existing opportunities worldwide, particularly in a digital age), may become more difficult for the Party leadership to control.

As a matter of fact, there is little indication that Chinese leaders are heading towards a political opening of the country's political system. According to the Polity index, which provides a numerical proxy for the level of (electoral) democracy in a given country/year, no change has occurred in Chinese political institutions since 1990 (Coppedge et al 2016). The dataset ranks China as a full authoritarian regime, its score always falling below the -6 threshold, above which the country would enter the 'intermediate' category of transitioning regime ('anocracy', i.e. neither a full autocracy nor a fully democratic system) (See Figure 7 below). Other proxies such as the Freedom House index that combines both political and civil liberties, also report China as 'not free', with the same freedom score – of 6.5 – that the country had in 1998.

Figure 7. China and Russia: political openness 1990-2015



Source: Author's elaboration from: Varieties of Democracy dataset (Coppedge *et al.* 2016).

Illiberal practices have unfortunately been adopted also in the recent, and formally pro-market approach favoured by President Xi Jinping in the form of an anticorruption program. Apparently, and in spite of official claims, the program has not reached the expected results (Xing and Zhen 2016). Worse, the recent cases of incarceration and death sentencing of several CEOs of domestic companies who were deemed to have behaved fraudulently have raised suspicions about a surge in state executions to cover other cases of (state sponsored) corrupt behavior. The question of whether the move serves indeed as a diversionary strategy to cover corruption of 'privileged CEOs' that are closer accolades of political (state, local) elites, and/or to show the international community a glossy – gloomy- free-market façade, raises yet another question about the sustainability of the virtuous link between 'capitalist China' and the country's economic prowess (Pei 2006).

Russia is similarly ranked as 'not free' in 2015 by Freedom House, with a score of 6, which marks a decrease in the country's current level of freedom as compared to the situation in Russia in 1999 (when the first Freedom House report on the country became available). In that year Russia was indeed ranked as 'Partly Free', with a score of 4.5. Both political rights and civil liberties have been curtailed since the beginning of the Putin era. Based on Polity scores (Fig.7), Putin's illiberal democracy is more open politically compared to Beijing's one-party autocracy. Yet, China's political stability has been instrumental in the country's phenomenal growth in the post-Tiananmen years. Conversely, post-Soviet Russia has undergone multiple phases of political turmoil since the Gorbachev years, with the gains from political opening achieved under Boris Yeltsin eroded by the poor results of his privatisation programs and collusion choices to the advantage of the oligarchs (Åslund 2007). Additionally, in contrast to (relative) Chinese stability, Russia has been subject to recurrent economic bottlenecks, induced by the structural volatility of crude prices. More worrisomely, selective order provided by current Russian leader Vladimir Putin seems closer to the pre-revolutionary patrimonial-personalistic tsarist regime, than to the subsequent, allegedly

totalitarian, yet more impersonal and certainly more formalised Soviet rule (Shkaratan 2007)<sup>15</sup>. Popular dissatisfaction with both the Russian government (80% negative ratings according to recent polls) and economic elites, has raised popular trust in the role of President Putin: while his discretion in terms of regulating the gates on either side is maximum, he enjoys nearly universal support from both elites and the public as the key balancer between corrupted governmental cadres, crooked oligarchs and revolutionaries (The Economist 01.04.2017). Confirmation in power for Mr. Putin occurred in the 2018 spring elections. However, the future of Russia, and particularly the sustainability of its institutional-economic model of development, depends very much on the ability of its leaders to rethink their options through stabler, more formalised rules and radically longer-term horizons.

Beyond the choice between patronage and formalised, impersonal rule, Russian and, to a lesser extent, Chinese leaderships will have to decide whether they want their countries to progress further along representative polities that incentivize private entrepreneurship by also backing individual rights, or, on the contrary, choose to endorse growth by banking on the compression of political and civil freedoms. To a wide margin, such a choice impinges on the extent to which it is possible to dissociate long term sustainable growth achieved through free-market capitalistic development from liberal-democratic institutions (Pei 2006). Current critics, those who believe that state capitalism without liberal democracy has worked in the past and does work for countries like China and Russia, note that reversion to higher levels of state intervention in the economy has been on the rise in mature, industrialised democracies too, since the failure of 'pure' Washington Consensus policy prescriptions in the 1990s and 2000s, and particularly after the 2008 crisis (The Heritage Foundation 2018)<sup>16</sup>. Yet, counterpoints retort that the sort of intervention pursued post-

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<sup>15</sup> The formalisation of self-appointed total control of the Communist party by China's president Xi Jinping also points in the same direction.

<sup>16</sup> The overall index of economic freedom produced by The Heritage Foundation has marked a decline since 2007 - to regain moderately at the end of the 2010s. The index is a composite indicator of several dimensions of state intervention in the market – including business, investment, trade and public

global crisis by liberal-democratic capitalistic states in their economic systems is different from the gradual centralisation (or, in the case of Russia, re-centralisation) of an entire economic system in the hands of the state (or of the individuals that control it). They note that in mature industrialised liberal-democracies, basic freedoms have been largely preserved – aside from select cases, in times of crisis and under state-sponsored bailout programs of an emergency nature-. A different story would be at play in the ‘state sponsored’ illiberal capitalisms of China and Russia (Kurlantzick 2016).

Relative to domestic evolutions, a key issue is whether state capitalism is indeed ‘the factor’ that explains China’s economic miracle, and Russia’s ability to stay afloat even in the midst of major energy shocks, or whether, on the contrary, the Chinese and Russian paths to state capitalism are in fact second-best solutions, devised by domestic incumbents to support the maximum level of growth achievable under relative political closure and exclusionary - or partially exclusionary - institutions. In turn, the sustainability of Chinese and Russian illiberal state capitalisms will be key for the future of the global economy, as well as for its governance rules.

#### 1.4 Inside-out processes: foreign policy role projections and performances

While the economic performance discussed in the previous sections indicates Russia as a *de facto* order-taker and China as an order-maker in the global political economy, their respective leaderships have projected to the outside world different, and peculiar foreign policy aspirations<sup>17</sup>. Both countries are permanent members of the UNSC, and major players in the BRICS group, alongside India, Brazil and South Africa. Through the BRICS venue, as well as individually, they have claimed enhanced voice rights in major

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expenditures. A major shift has been recorded by China in terms of freedom of investment, which has marked a downward trend from a peak of 50% in 2007 to 25% in 2018.

<sup>17</sup>Chen (2016) labels both present-day China and the EU as order-shapers, speculating about the potential for their cooperation.

international *fora*, achieving some gains on the boards of the Washington-based IFIs (the IMF and the World Bank) since the quota and voice reform (Baroncelli 2013). Alternatively, they have aggregated other clusters of developing and emerging economies, creating their own financing facilities to support growth at the regional level. Among them, the New Development Bank, also dubbed the ‘BRICS Bank’, in force since 2015, and the Asian Infrastructure and Investment Bank (AIIB), operational since 2016. China has also been a participant in the Chiang-Mai Initiative, a bundle of currency swaps launched after the Asian Crisis by some members of the Asian Development Bank, to pool reserves and help member countries to cope with large imbalances without resorting to IMF support. The Chiang Mai initiative has been subsequently multilateralised – although its success during the 2008-10 crisis was rather limited.

Russia was a member of the G-8, and both countries have gained greater influence and visibility through their membership in the G20, which has taken the lead on global macroeconomic and financial decision-making since the 2008 crisis. Even if the G20 entry rules still remain obscure to date, China and Russia’s sheer economic size in the world economy, coupled with their political reach, made their membership a predictable outcome. However, beyond the standard arguments against the bloc-power of western industrialised economies, the two countries have vigorously pursued their respective national priorities, with very distinct foreign policy styles.

Chinese leaders have worked to forge an image of responsible power for their country, softening the tones of geopolitical and economic claims vis à vis Beijing’s counterparts, certainly outside East Asia<sup>18</sup>. Putin’s Russia has taken the opposite way. After the failed reforms initiated in Soviet times under Mikhail Gorbachev, and pursued in the new Russia towards openly free-market – if largely unregulated and corrupt-ends under Boris Yeltsin (McFaul 1995), Vladimir Putin’s regime has decidedly married the cause of diversionary and rent-seeking oil politics. Identifying different external threats as the main culprits of domestic failures (during times of oil price slumps), Putin has been able to exploit the pernicious convergence between economic hardship and political transition to his advantage. In doing so, he has

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<sup>18</sup>Breslin (2016) connects China’s responsible behavior at the multilateral level to Beijing’s assertive pursuit of its interests at the regional level.

succeeded in compacting a nation-wide consensus (in fairness, a particularly difficult task in a plurinational, federal state born out of the ashes of a federation of multi-national republics) behind the idea that Russia had been left for too long at the margins of international politics, and that it was time to regain the stature and place it deserved. Diversionary war and ‘rally ’round the flag’ politics (Levy 1988; Mueller 1973) have been the norm in Putin’s post-Soviet Russia. He started with fiercely nationalistic propaganda during the repression of domestic opposition in Chechnya in 1999, and continued with foreign policies of an anti-democratic nature in neighbouring countries: in 2008, in Georgia, followed by military intervention in Ukraine in 2014. In 2016, Russia’s military involvement in Syria has unequivocally signaled Putin’s will to claim a global role for Moscow. There is little doubt that Putin’s revamping of military action and Russia’s role in the Middle East have also served the purpose of further cementing his domestic consensus, pushing up ratings polls to that effect.

Russia’s aspiration to achieve a global foreign policy role is also reflected in the country’s military expenditures, that in relative terms surpass those of the US, the most powerful military actor in current international politics<sup>19</sup>. The evidence is confirmed by trends in military expenditures out of total government spending for the BRICS, the US and selected EU countries (see Figure 8 below). Russia has unequivocally reached the highest average levels across the whole 1990-2015 period, leading the rank, followed by the US, the UK and, since the mid-2000s, China. Shares of domestic fundamentals (GDP, Government expenditures) provide a raw indication of the country’s planned military engagement, based on its own domestic capabilities. As such, they also convey a *prima facie* indication of the expected breadth of its foreign policy aspirations. However, the gap between role concept (aspiration) and role performance, theorised in the IR literature to also include role acknowledgement by others (Harnisch 2011), casts light on Russia’s potential ability to fulfill its self-expectations with role-enactments and ultimately policy results, leaving the issue open to multiple future relational and systemic developments.

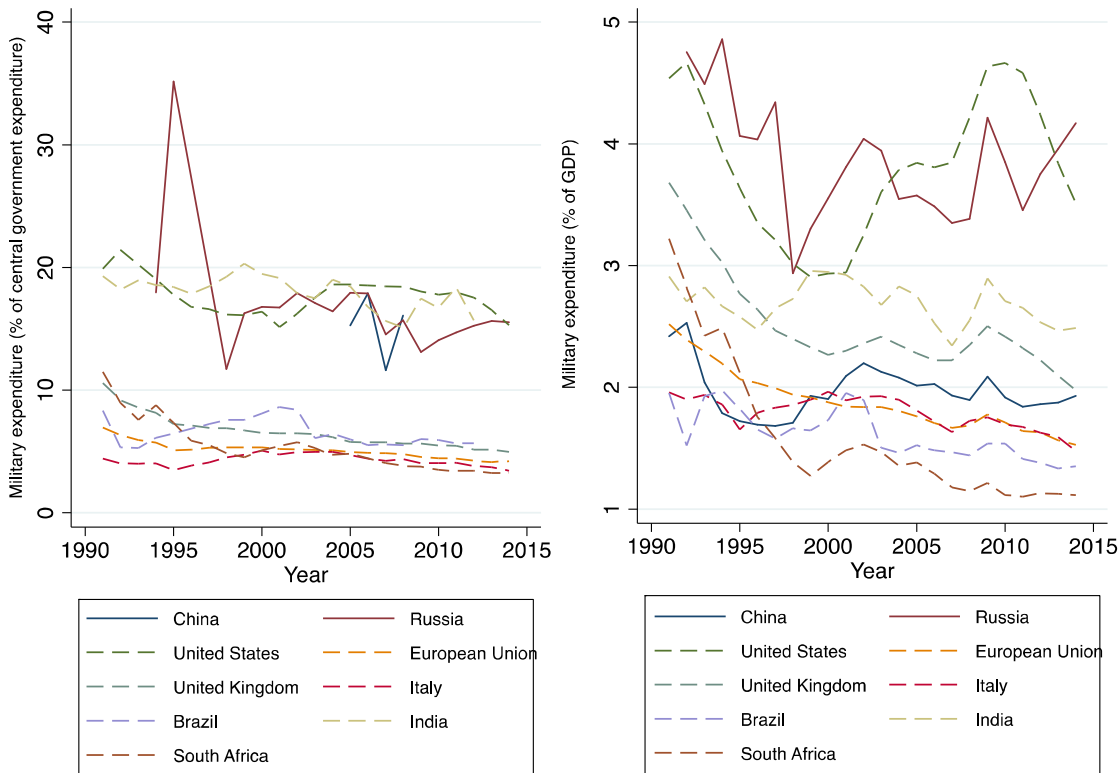
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<sup>19</sup>Taking the average of military expenditures on GDP at 5-year intervals between 1995 and 2015, Russia’s 4% goes beyond Washington’s 3.68%, with Moscow’s share of military spending in GDP even exceeding 5% in 2015. See Table A4 in the Appendix.



In turn, China's military expenditures as a percentage of GDP, stably revolving around 2% (yearly average 1990-2015), suggest commitment to a regional, as opposed to global, foreign policy role. By 2005, China's military expenditures as a share of government spending had reached 15%, on par with lower thresholds of military spending as a percentage of government budgets of the US, Russia and India<sup>20</sup>.

Figure 8. BRICS, the US and the EU: Trends in military spending



Note: Military Spending on public expenditure (World Bank WDI)

Note: Military Spending on GDP (World Bank WDI)

China's foreign policy in Asia, and particularly in the South China Sea, vis à vis Japan and Taiwan, has been assertive and at times aggressive, yet it has never escalated to levels that compare to Russia's interventions in Georgia and Ukraine, and ultimately in Syria. While certainly blunt, a fair comparison would cast China's security policy in line with its (official) aspiration to the status of a regional power, while putting Russia in the group of countries aspiring to a global role. Things may however evolve more swiftly than expected. In early 2017, President Xi Jinping has claimed for China the role of defender of

<sup>20</sup> However, the absence of data for other years and reliability issues suggest particular caution in drawing implications on China's foreign policy roles.

globalization, trade openness and environmentally friendly development, endorsing the Paris agreement on climate change. The country's 'Belt and Road' initiative, launched in 2013, projects China's economic clout globally, potentially providing the basis for its future, wider strategic geo-political repositioning (Caffarena 2017). Expected to become the largest infrastructural endeavor in human history, the initiative enlists 68 participating states, is budgeted in the range of tn 6-7 USD, and is set to encompass half of the world's population and 1/3 of world GDP. Over the course of 2017 China has become more assertive in military terms, by opening its first military base abroad (Djibouti) and directing its navy to hold exercises in the Baltic sea. The country is not new to maritime operations in regional seas. In the East Chinese Sea, Beijing has opposed Japan's claims over the Senkaku Diaoyou Islands. In the South Chinese Sea it has been involved in ongoing quarrels over sovereign rights on continental platforms around the Spratly Islands, with the Philippines, Malaysia, Taiwan, Vietnam and Brunei. China has also engaged in openly building artificial islands on atolls and reefs to buttress its reclamation rights on the Spratlys. However, the global projection attached to the operations in Djibouti and the Baltic Sea has not gone unnoticed

Meanwhile China and Russia have settled their territorial divergences by agreeing on the contentious frontier that kept them apart. The reasons for this progress are manifold. On the one side there are the economic gains that the two countries are reaping, and that would have been impaired by further protracting hostilities on territorial claims at the borders. Between the 1990s and 2014, bilateral trade between the two countries has grown by more than twenty times. In 2008 China became Russia's biggest trading partner (WITS), while between that year and 2012 Chinese investment in Russia grew by almost 100% (UNCTAD 2015). China's spectacular performance in domestic growth has also spelled an increased demand for energy, which is expected to rise further in the future. In turn, the negative impact of 2014 EU sanctions against Russia on energy deals under negotiation with select EU partners (particularly the North Stream, South Stream and Arctic pipelines) has raised the attractiveness of the eastern option for Moscow. The agreement on a Russian-Chinese contract providing for the building of the Sila Sibiri gas pipeline, negotiated in July 2017 by Presidents Vladimir Putin and Xi Jinping, is expected to provide 38 bn cubic metres of gas per year over the next 30 years, worth approximately 200 bn euros. Nonetheless, there is also

evidence that China has stepped up investment to increase its own production of shale gas, which is expected to total 7.9 bn cubic metres by the end of 2017, soon reaching a 10 bn cubic metre ceiling.

### 1.5 Outside-in dynamics

System-wide developments have occurred since the global economic crisis and recession of 2008-2010, a shock that China absorbed with remarkable resilience, playing a key role in the global recovery that followed. Managing recession has been more difficult for Russia, which was hit hard by the drop in oil prices. In turn, the international responses to the war in Eastern Ukraine (particularly through sanctions against Moscow) and to the militarised conflicts in the Middle East have led Russia to become more assertive in its search for a wider geo-political reach. The recurring threats agitated by Kim Jong Un's North Korea, have also modified the range of options for the Chinese and Russian leaderships. Putin's display of force, by sending of strategic bombers to the region at the end of 2017 (a move reminiscent of Russia's once privileged relation with North Korea) has reminded both China and the US of Moscow's symbolic potential to project its global aspirations further eastward<sup>21</sup>. Exacerbated by the economic consequences of the 2008 crisis, the controversial nature of unipolarity has been magnified since 2017 by the un-presidential assertiveness of the US Trump Administration (Ikenberry 2017). Wary of President Trump's escalating tweets, threateningly alluding to non-diplomatic solutions to the nuclear tests implemented by North Korea, Moscow and Beijing have compacted around a not-so hidden anti-US stabilizing deal in the region, putting aside the claims that had previously strained their relations over the two Koreas.

News on Russian information warfare, and allegations of the country's meddling with the US presidential election in early 2017, and in French, German and British elections later in the year, have not helped the cause of easing the already tense relations between Moscow and Washington, and have embittered bilateral relations between Russia and several EU MS. Domestic cleavages have emerged, or

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<sup>21</sup> Symbolic gestures that have however been buttressed by Russia through taking pro-North Korea stances in the UNSC and renewing economic support to Jong Un's regime.

compacted, in both EU countries and, particularly, the US, around the significance and reliability of such allegations, showing the relevance of disinformation campaigns in the age of digital globalization (The Economist 15.04.2017; 02.12.2017). While Russia's military might was put under strain by the post-crisis fall in oil prices and 2014 economic sanctions, the country has vigorously endured in its policy of robust military spending. Moscow's choice to upgrade its cyberpower, and to add it to modernized nuclear and conventional capabilities, has alerted NATO to the possibility that Russia's role aspirations may not be as distant from actual fulfillment as they were in the past. Deals between apparently odd bedfellows, as in the 2017 agreed sale of S-400 Russian air defence missiles to Turkey, have further spread concerns among transatlantic partners.

In turn, changes in the direction and tone of US foreign policy under the presidency of Donald Trump, his 'America first' rebuttal of commercial cooperation with the EU, as well as reticence in joining the scaling up effort in multilateral lending commitments to the Washington-based IFIs in 2017, indicate that role and power transitions have been further at play on that end too (Birdsall 2017). Non-decisions and outright political mistakes by transatlantic allies in addressing conflict and instability in the Middle East, including the 2017 US decision to support the Netanyahu government and officially recognize Jerusalem as the capital of Israel, have greatly reduced their role as neutral mediators, and have in turn helped Russia in the endeavour.

On the one side, the business mentality of US President Trump, and his relatively carefree approach to human rights issues (Human Rights Watch 2018), has driven him closer to China, the new land of economic opportunity. His convinced praise of Chinese President Xi Jinping and his quiet *placet* to the Belt and Road initiative indicate that the 'Pacific vocation' of the US may grow further, to the detriment of privileged relations within its European allies. Washington's unilateralism has simultaneously raised concerns of a deepened divide with European partners. Discarding the trade deals that had been envisaged in the Obama-sponsored TTIP, dismissing the role of NATO in the provision of regional and global security, demeaning the role of the EU, and withdrawing from the 2015 Paris Agreement on climate change in 2017,

have been among the most tangible moves in that direction<sup>22</sup>. On the other side, an equally unilateral approach has been adopted by the US vis à vis a group of Asian partners, through the scrapping of the TPP (Transatlantic Pacific Partnership) in early 2017, which enhanced the value of cooperation between them and their Chinese neighbour instead. Admittedly, the failure of transatlantic mega-regional has revealed inconsistencies on the side of European partners too, where large sections of domestic audiences have fiercely opposed furthering the negotiations on the TTIP well before the US unilateral closure under the new Trump Presidency. Overall, US unilateralism, coupled with EU indecision and lack of coordination, are magnifying the potential for success of Russian military ambitions and Chinese economic expansion. They also point to a handful of opportunities for rising China to upgrade its official aspirations well beyond the regional role that the country has been forging for itself in East Asia for some time.

Compared to the immediate post-Cold War period, international politics is currently marked by a higher dependence of regional and global orders on domestic evolution in China and Russia. While different in their ‘order-shaping’ abilities, leaders in Beijing and Moscow are keener on claiming expanded roles for their respective countries, assertively at the regional level, but increasingly also in the new global context. The extent to which they are able to follow up on those claims is also premised on their success in credibly projecting authority at the domestic level. First, the endeavour implies a renewed focus on controlling centrifugal authority flows at the domestic level, slowing down growth deceleration and reducing inequality for China, and containing audience costs related to oil-related downturns in Russia. Both countries will have to devote efforts to pursuing their own economic development, with strategies that may be at times detrimental to regional stability, as shown by the diversionary strategy adopted under Putin’s Russia – which continues to subsume economic priorities to foreign policy ambitions.

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<sup>22</sup>Across the ebb-and-flow of isolationist calls, and past the long Cold War hiatus, voices supporting US disengagement have gained traction. On pre-Trump US unilateralism see Posen (2014). Elaborating on Layne (1997), Mearsheimer and Walt (2016) have advocated a strategy of US ‘offshore balancing’ again, during the campaign for presidential elections.

Second, China's and Russia's ability to fulfill their roles also depends on the response of the other major actors in the international system, the United States and the EU – or according to some its main powers – most notably Germany, as well as of Japan and major EMEs (most notably India and Brazil, but also Turkey and Israel). Washington's unipolar moment has been superseded by increased fluidity (Scwheller 2011), and the power transition has reduced the asymmetry between the hegemon and runner-ups, followers and challengers (Nye 2017). However, status has not yet adjusted to the power redistribution dynamics underway, which has caused China and Russia, as well as other emerging powers, to claim an increased role in the liberal structures of current multilateral governance. However, China is the only player that has started –albeit reluctantly- to assume some of the responsibilities that come with enhanced status – particularly through its aid policy, sponsorship of Asian development facilities and, lastly, the BRI. Russia, on the contrary, has shirked most of these responsibilities – not least because it is not in a position to sustain economic efforts of that sort. Relative to Moscow, and if the expectation of hegemony theorists is right, the wider and more enduring a power-status gap is, the dimmer the chances for quiet systemic transitions (Doran 1989). The role played by the United States in this process remains crucial. In principle, wise yet vigilant accommodation by Washington to an authority-sharing transition improves the opportunities that key liberal principles of the Bretton Woods order are retained (Ikenberry 2009). In practice, the flimsy foreign policy attitude of the Trump administration, coupled with the norm drifting, role changing and power redistribution dynamics underway, indicate the coming of a multi-order international system (Flockhart 2016). Time will tell how liberal, effective and concerted the new plural order is going to be, and the extent to which its core principles can be shared by future major powers.

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## Appendix

Table A1. China Trade/GDP Shares

Year	Trade, GDP %	Trade in services, GDP%	Merchandise trade, GDP%
1991	33.00	2.91	35.57
1992	33.69	4.40	38.95
1993	31.73	5.25	44.19
1994	42.06	5.85	42.08
1995	38.44	6.06	38.37
1996	33.72	5.02	33.67
1997	33.95	8.96	33.94
1998	31.63	8.74	31.60
1999	33.15	9.01	33.10
2000	39.36	9.54	39.35
2001	38.25	9.73	38.26
2002	42.46	10.19	42.46
2003	51.61	6.86	51.58
2004	59.45	7.83	59.46
2005	62.90	7.16	62.68
2006	64.77	7.14	64.49
2007	62.28	7.23	61.78
2008	56.80	6.62	56.23
2009	43.59	5.31	43.63
2010	49.38	4.28	49.24
2011	51.14	5.99	48.61
2012	48.67	5.71	45.70
2013	47.14	5.66	43.82
2014	45.09	7.08	41.56
2015	41.20	6.95	36.41

Source: World Bank, World Development Indicators

Table A2. Russia Trade/GDP Shares 1991-2015.

Year	Trade (% of GDP)	Trade in services (% of GDP)	Merchandise trade (% of GDP)
1991	26.26	..	..
1992	110.58	..	..
1993	68.70	..	..
1994	50.95	6.04	29.88
1995	55.18	7.78	35.91
1996	47.92	8.16	40.19
1997	47.26	8.42	39.99
1998	55.77	10.73	49.05
1999	69.39	12.45	58.80
2000	68.09	10.64	57.84
2001	61.11	10.93	50.77
2002	59.71	11.32	48.76
2003	59.13	10.69	49.26
2004	56.58	9.68	47.48
2005	56.71	9.07	48.33
2006	54.73	8.28	47.26
2007	51.71	8.04	44.46
2008	53.38	8.11	45.97
2009	48.44	8.93	40.50
2010	50.36	8.16	42.58
2011	48.37	7.35	41.59
2012	47.98	7.95	40.14
2013	47.64	8.89	38.74
2014	48.45	9.10	39.25
2015	50.74	10.54	40.15

Source: World Bank, World Development Indicators

Table A3. Research and development Spending as a share of GDP (%): BRICS and other advanced economies.

Country	2000	2005	2010
Brazil	1.00	1.00	1.16
Russian Federation	1.05	1.07	1.13
India	0.74	0.81	0.80
China	0.90	1.32	1.73
South Africa	n.a.	0.86	0.74
US	2.62	2.51	2.74
United Kingdom	1.72	1.63	1.69
Italy	1.01	1.05	1.22
Germany	2.39	2.42	2.71
France	2.08	2.04	2.18
Canada	1.87	1.99	1.84
European Union	1.74	1.75	1.93
World	2.08	1.99	2.06
Hong Kong SAR, China	0.46	0.77	0.75
Netherlands	1.81	1.79	1.72
Japan	3.00	3.31	3.25

Source: World Bank, WDI various years.

Table A4. Military expenditures: BRICS vs selected transatlantic allies, 1995–2015.

Country	Year	Military spending/Gov't exp.	Military spending, %GDP
China	1995	n.a.	1.72
	2000	n.a.	1.90
	2005	15.27	2.02
	2010	n.a.	1.92
	2015	n.a.	1.98
Russia	1995	35.17	4.07
	2000	16.79	3.55
	2005	17.94	3.58
	2010	14.07	3.85
	2015	n.a.	5.01
Brazil	1995	n.a.	1.82
	2000	8.10	1.73
	2005	6.01	1.52
	2010	5.95	1.54
	2015	n.a.	1.39
India	1995	18.42	2.58
	2000	19.47	2.95
	2005	18.46	2.75
	2010	16.73	2.71
	2015	n.a.	2.42
South Africa	1995	7.35	2.12
	2000	5.10	1.39
	2005	4.82	1.38
	2010	3.51	1.12
	2015	n.a.	1.11
US	1995	17.78	3.64
	2000	16.42	2.93
	2005	18.62	3.84
	2010	17.79	4.67
	2015	n.a.	3.32
United Kingdom	1995	7.24	2.77
	2000	6.53	2.27
	2005	5.78	2.28
	2010	5.50	2.42
	2015	n.a.	1.95
European Union	1995	5.11	2.07
	2000	5.34	1.88
	2005	4.97	1.76
	2010	4.46	1.71
	2015	n.a.	1.49

Source: World Bank, WDI.