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Russia and the World: 2018 IMEMO Forecast

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EDITOR'S NOTE

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I am very pleased to present the latest iteration of a long-standing initiative, together with IMEMO, the Russian Academy of Science's Primakov National Research Institute of World Economy and International Relations. *New Perspectives* is again the only place where you can get this unique, English language insight into the thinking and worldview of the Russian foreign policy establishment. As we were somewhat delayed with this year's publication, meaning that it is in practice less of a forecast than a 'pastcast', we are happy to also present a special 'Autumn 2018' update to the forecast from Irina Kobrinskaya, the head of the Centre for Situation Analysis at IMEMO. This update provides a valuable addition to the main forecast, and in both texts, 'the Russia factor' and how it is (mis)understood around the world is a prominent issue. The update also trails the 2019 forecast, which will be published in Russian in the next months and in English in *New Perspectives* in Spring 2019. The timing of this year's 'forecast' also allows us to do something a little different with our usual forum of responses that will be coming in our next issue: a group of leading Western scholars will not only respond to the 2018 forecast, but provide their own mini-forecasts of what lies in store for 'Russia and the World' in 2019. I hope you find this year's forecast and update as stimulating as I did and that it provokes much needed discussion between Russian and Western experts.

RUSSIA AND THE WORLD: 2018

THE 'RUSSIA FACTOR': INCREASINGLY INFLUENTIAL, STILL MISUNDERSTOOD

Russia enters the year 2018 with an independent and active (*assertive*, according to many western experts and politicians) multi-vector foreign policy (Rutland, 2017; SETA, 2018; Secrieru, 2018; Wesslau and Wilson, 2016). The significant role of Russia in world politics and international institutions, and its presence – including military presence – and influence in various regions are increasingly recognized by international actors. In the course of and after the end of the massive military stage of the Syrian conflict Russia has succeeded in strengthening its role as one of the key players and mediators, both in Syria and in the Middle East region in general. This policy of building/maintaining balance (which was predicted and emphasized as a basic pattern of our foreign policy in the "Russia and the World – 2017" edition of the IMEMO Forecast) also proved effective in other areas, including the Asia-Pacific region.

At the same time, Russia's strengthening role led to negative interpretations and perceptions, which were manifested in the excessive and at times false claims relating to the 'Russia factor' in both foreign and domestic policy in the US and Europe. This tendency is likely to remain prominent in 2018, particularly if we take into account the mid-term congressional elections in the USA in November 2018, as well as the recent elections in the Czech Republic, Hungary, Italy and Sweden. The 'Russia factor' became a tool of 'political technology': it is almost routine, but rather effective due to its primitiveness and the appeal to hardy stereotypes and fears of the past. Neutralizing its negative impact will be one of the important and difficult tasks of the Russian foreign policy in the foreseeable future.

The need to overcome anti-Russian hysteria also becomes increasingly obvious to those realistic Western politicians who think with sufficient perspective. However, this wave is unlikely to be brought down in 2018, nor can we exclude aggravations of the problem, including those in connection with the 2018 the FIFA World Cup (to be held in Russia) and the Winter Olympic Games.

Despite the anti-Russian background, in 2018 it is possible to expect the active participation of Russia in the resolution of several crisis situations by means of bilateral as well as multilateral contacts and formats, including those initiated by Moscow and those within the international organizations – such as the UN or the OSCE. Such crises as well as other risks and threats are unlikely to decrease in 2018, given, *inter alia,* the tensions in Syria, on the Korean Peninsula, in Mexico and in relation to Iran as well as the conflict in Yemen and the ongoing Ukraine crisis; not to mention the likely spike in protests and confrontation in the Middle East and around the world provoked by President Donald Trump's decision to transfer the US embassy in Israel to Jerusalem, thus recognizing it as the Israeli capital.

Russian foreign policy in 2018 will be influenced by a complex of global and regional tendencies and factors, both long-term and of a transient, situational character, including:

- The decreasing role and impact of international organisations (most notably the UN) and the general degradation of the system of international law, including in relation to arms control and disarmament but also economy and trade
- China's increasing role in and influence on world politics and economics, and the potential aggravation of the US-China rivalry
- The crisis of traditional regional integration associations (e.g. the EU) and the related growth of nationalism and national populism
- The unpredictability and uncertainty stemming from President Trump's foreign policy
- The likelihood, nonetheless, of a toughening of the anti-Russian sanctions by the US
- The high level of conflict and instability in the Middle East
- The growth and proliferation of terrorist threats
- The continuation of the Ukraine crisis

All of this takes place against the backdrop of the presidential elections in Russia, which come at a time of rising Russian influence in the world but also continuing and increasing anti-Russian moods in the West. This combination of trends and circumstances informs the analysis that follows: firstly, of the geopolitical world as seen from Russia – and in which Russia acts or seeks to act – and then, briefly, of the Russian and global economies. These interconnected spheres are both influenced by the increasing importance of 'the Russia Factor' that sees a more influential but still misunderstood Russia engage with the various vectors of geopolitics that are then outlined region by region, first under the 'western vector' and then under the 'Eastern and Eurasian' vector.

Russia's Geopolitical World in 2018

In 2018 the transition of the world order – from the current stage, which is defined as the period of "Post-Truth, Post-West, Post-Order" – will continue (Munich Security Report, 2017). But its future contours, except for the growing role of China, have not yet taken shape and are unlikely to do so before the end of the Trump administration. Today's world is also often called "post-American" (Henriksen, 2017),[1] yet its tone is still largely set by the USA – and President Trump's unilateralism will most likely remain a dominant trend until 2020. The dynamics of 2018 will also be defined by developments in the position of the USA, which are likely to concern Europe and the rest of the world due to the uncertainty they will bring. This uncertainty will, in part, stem from confrontations between the White House and Capitol Hill, which will only be amplified in a year of mid-term elections.

The initiatives and decisions of President Trump will continue to signal often significant changes in the medium and long-term conditions for global trade and in the global economic system as well as in the field of security. Thus, the 2017 Trade Policy Agenda prepared by the Office of the United States Trade Representative (USTR) and submitted to Congress can be considered as a signal of the revision of the principles of multilateralism, and the alignment of the terms of trade and liberalism laid out by the Bretton-Wood system and the GATT/WTO towards bilateral agreements. As 'economic patriotism' becomes ever more popular, the Agenda sets out the task "to expand trade so that it becomes more free and fair for all Americans" by means of "focusing on bilateral, but not multilateral negotiations" and thus on protection of US national interests through trade policy (Office of the United States Trade Representative, 2017). This, of course, reduces the role of the WTO or any similar mechanism for the settlement of disputes (Ruano, 2017).

Shifts in the US position cause worries in Europe, and not only there, because of their impact not only on economy and finance but also in the political and security spheres. Thus, the TTP was preconditioned by the US 'pivot' to Asia, and the TTIP by the intention to strengthen transatlantic relations in the period of the EU crisis. The US's unilateralism, near open repudiation of its global responsibility (e.g. its withdrawal from the Paris Agreements on climate change) and focus on a national-oriented ('America First') strategy will, as many western experts believe, provoke further growth of nationalism in the world, and attempts on the part of China to fill the resulting vacuum. Meanwhile, Europe will be compelled to rethink its strategy towards 'strategic autonomy'. These tendencies are all likely to be amplified in 2018.

For Russia these shifts are ambiguous. On the one hand, especially if and when the sanctions are cancelled, non-overregulation of trade by agreements in which Moscow does not participate may give it greater freedom of manoeuvre. This is also positive in that Russia will no longer appear as the outsider caught between two American megaprojects. On the other hand, the 'rise' of China (in particular within the projects 'Belt and Road Initiative' [BRI] and the ASEAN Regional Comprehensive Economic Partnership [RCEP]) represents a serious challenge for Russia. The US's abandonment or suspension of its participation in trade and economic megaprojects with China will most likely continue in 2018, probably with an increased level of hostility. Beijing has little to worry about from this development, though, as it has no serious financial problems.

In 2018 Moscow seems set to continue on its own course by strengthening its own integration project, the Eurasian Economic Union (EEU), developing its links to the Chinese BRI as well as signing bilateral Free Trade Agreements (as it has already done so with Vietnam) and expanding its trade with the countries that are members of other associations. Moscow will push forward *the Greater Eurasian Partnership* – its megaproject declared in 2017 – through which it seeks to establish multilateral cooperation with the members of the EEU, the SCO and ASEAN. This cooperation presupposes different depths, speeds and levels of integration, depending on the readiness of the particular partner state – and it is thus a flexible and open integration format (Kremlin, 2017).

This Eastern vector of Russia's activity is preconditioned not only by the universal re-focusing toward Asia or the long-stated domestic priority of developing the Russian Far East, with the toughening sanctions and restrictions of the West also playing a significant role. Nonetheless, the geographical structure and volumes of Russian trade remained largely stable, which is evident when we compare the period January-October 2017 with the same period in 2016. The trade with the EU only declined slightly as a percentage of the whole in the two years, from 43.2% to 42.7%, with a small increase in the trade with the EEU (8.6% to 8.8%) and a slightly larger one in the trade with China (14.1% to 14.7%). The efforts to expand trade and economic relations with India and Vietnam have yet to yield visible results, as the trade with these two countries remains at 1.6% and 0.8% of Russia's total trade, respectively (Russian Federation Federal Customs Service, 2017).

In general, the IMEMO experts expect military-political tensions to increase. The scale of both NATO and Russian military exercises continues to widen, and at the end of 2017, the alliance took a decision to strengthen its command structures in Europe. It plans to establish an Atlantic regional command to ensure the protection of the sea communication line. As NATO Secretary General Jens Stoltenberg has declared, this is done in order "to have [the] opportunity to deliver troops through [the] Atlantic from North America to Europe. It will include also the command responsible for relocation of troops within Europe" (NATO, 2017). The US Chief of Staff, Gen. Mark A. Milley, suggested that the Pentagon might increase the number of the US Armed Forces deployed in Europe, asserting that "the key, most fundamental task is to deter further Russian territorial aggression against the independent sovereign countries on the continent" (Defense One, 2017). All this is perceived by Moscow as a series of confrontational steps. In the context of further degradation of arms control and disarmament systems, the IMEMO experts see that the aggravation of tension may lead to military incidents and a rapid escalation of the conflict up to its full scale.

There are no basic contradictions among the leading world powers with regard to the situation in North Korea. IMEMO sees the potential for a dialogue between Pyongyang and Seoul. If there is a successful reduction of tension, we expect that Washington's influence in the region may decrease, while Beijing's would grow.

In the Middle East, however, we see little prospect of stabilisation in 2018, given the instabilities that aggravated the situation in 2017: the Saudi-led embargo of Qatar and the bombardment of Yemen, and the retaliation by a missile strike in the latter case; the domestic instability stemming from the power struggles in Saudi Arabia, and the increased activity of the Kurdish independence movement in Iraq, to name just a few. In addition, we see an increased level of threat to both Israel and Lebanon, and a deep confrontation between Iran and the Gulf states together with the Arab countries caused by both sectarian Sunni-Shiite tensions and regional geopolitics, with a specific reference to fears of an Iranian regional dominance. Thus the situation is aggravated further by the US's support for Saudi Arabia, its rigidly negative position towards Iran and its inflaming of the situation in Jerusalem, as well as by the domestic political tensions in Iran.

Nonetheless, by the beginning of 2017, Russia had strengthened its presence in the region, as well as its position as a mediator, and had completed the 'active phase' of the military conflict in Syria. Consider, e.g., the following: the meeting of the Russian and Qatari leaderships in Moscow right after the beginning of crisis; the 2017 high-level visit to Moscow of the King of Saudi Arabia; the normalisation of Russia's relations with Turkey; and the Russian-Turkish-Iranian summit in Sochi, which discussed Syria as well as other regional problems.

In 2018, however, Russia will face no less difficult problems in the region: ensuring the protection of Russian military bases in Syria; working toward a peaceful settlement in the country; and maintaining the balance in the relations with the partners (Turkey, Iran and Saudi Arabia), whose interests differ from, if not contradict, each other. Russia's coordination with the US in the region is limited to the joint statement on fighting terrorism (November 2017), even if the interests of the two states coincide more widely.

More widely in terms of coordination between Russia and the West, the Ukraine crisis remains the main stumbling block to restoring a dialogue and normalising relations between them. However, it cannot be excluded that in 2018 Moscow and Washington could shift their positions sufficiently for a compromise on Donbass to be reached. To that end, in September 2017 President Vladimir Putin proposed the deployment of a UN peacekeeping contingent in Eastern Ukraine. The difficulty of negotiating a mandate for this has been shown in the Volker-Surkov and Poroshenko/Klimkin negotiations with American and European partners. While IMEMO sees a fatigue among the European partners in connection with the Ukraine crisis, this does not translate into a readiness on the part of Germany or France to make considerable concessions to Moscow – and the generally negative anti-Russian background also impedes efforts in that direction. Nonetheless, the potential shifts in the positions of the main players may give rise to new and productive negotiating formats, which would be welcomed given the limited dialogue between Moscow and the West.

Russia's Economic World in 2018

The Russian economy entered the year 2017 on a wave of positive expectations connected with the increasing certainty of a world economic revival, the improvement in global market conditions and encouraging internal indicators. The pressure of the sanctions seemed unlikely to grow and the last nest of 'black swans' became empty: the Eurozone crisis eased, and Brexit and its effects seemed unlikely to unduly trouble the EU.

The world economic revival increased the demand for Russian goods, with Russian energy exports rising by 31% from January 2016 to November 2017, and Russia's exports of metals by 23%, while the prices for these key products grew: the price of Brent Crude increased 2.5 times; that of aluminium increased 1.4 times; and that of copper 1.6 times. Simultaneously and equally significantly, Russia's balance of payments transformed from a 10.8bn USD outflow in 2016 to an inflow of 13.8bn USD at the end of September 2017, and its Foreign Direct Investment (FDI) more than doubled from 11.2bn to 23.4bn USD in the same period.

Internal factors, however, counteracted the improved external conditions and significantly constrained Russia's growth. Most importantly, the limited domestic demand was held back by falling real disposable incomes (which decreased by 1.3% from January to October 2017). Rising investment could not compensate in growth terms for this sluggish demand, which was also compounded by the policy of the Russian Central Bank, which prioritised keeping inflation low and strengthening the Ruble's exchange rate through maintaining high interest rates. Limiting inflation (according to the Consumer Price Index) to 3.9% was an impressive success, but came at a significant cost (Russian Federation Federal State Statistics Service, 2018). Real interest rates for loans running at 20% p.a. and upwards shut most SMEs out of the market, and the rise of the relative price of the Ruble negatively affected the competitiveness of the Russian non-oil export and import-substituting industries.

Increased uncertainty at home and abroad also played a role in Russia's bucking of global economic trends. The domestic uncertainty was largely linked to the electoral cycle of 2017-18, which meant that politicians' aspirations for stability and growth in landmark indicators will outweigh long-term, strategic action. State expenditure will likely be targeted at supporting the incomes of the population and 'patching holes' in the budget and pension systems, continuing the trend of reducing the national wealth fund despite the growth in oil and gas income in 2017. A further sign of domestic uncertainty is the aversion of Russian businesses to investing and, furthermore, the withdrawal of funds from business and production into bank accounts. It is unlikely that economic actors' confidence will increase after the elections.

Internationally, the uncertainty related to Russia stems in the longer term from the implementation of several large-scale Russian geopolitical projects (especially in the CIS and the Middle East) and expensive infrastructure and image projects (the gas pipelines bypassing Ukraine – 'Nord Stream 2' and 'Turkish Stream', and the 'Force of Siberia', and the preparations for the 2018 FIFA World Cup and the 2019 Winter Universiade in Krasnoyarsk. These are costly, high risk projects with a low probability of commercial payback in the case of the infrastructure initiatives. They are also further hindered in the case of the pipelines by the US 'Countering America's Adversaries Through Sanctions Act' (CAATSA), which was adopted in the summer of 2017.

The Russian economy, which is not in the best shape, is thus made to bear the additional burden of expenses and risks from Russia's geopolitical activities, and these costs and risks would only increase if the competition with the US escalated into a fully fledged geopolitical rivalry or if the situation in either the South China Sea or the Korean Peninsula were to worsen so that there would be a potential conflict of interests between China and the USA. Viewed another way, however, Russia's possibilities to partake in geopolitical initiatives are determined by its resources, as shown by its weight in the world economy. Measured in 2015 PPP, in 2015 Russia's GDP was 3.26% of the global total, down from a high of 3.67% in 2010 and from its 2000 figure of 3.37%. In the same period (2000–2015), China's share grew from 8% to 17%, and India's 4% to 7%, while the shares of the US and the EU declined to 16% and 17% respectively. Thus, uncertainty in the economic sphere also needs to be taken into consideration in Russia's geopolitical activities.

Increasing Russia's share of global GDP is, however, a priority but will require considerable effort in the long term. IMEMO forecasts that attaining a 4% share of global GDP by 2035 would need a growth of 3.5% between 2018 and 2020 and no less than 5.8% between 2020 and 2035. IMEMO forecasts that in 2018 Russia's growth will remain at 2% and so what is needed is a more realistic target and a more realistic approach than those which are outlined in the currently applicable long-term social and economic development concept.

Nonetheless, despite the inability of the Russian economy to sustain its GDP growth, even amidst a global recovery, some positive economic tendencies could recently be observed. The significant growth in exports of steel (25.7%), chemicals (14.4%), food and agricultural products (20.1%) and construction materials (46.7%) contributed to an overall growth in Russian exports of 25.7% in the first three quarters of 2017 (Frumkin, 2017). Export growth also seems more likely to further contribute to Russia's economic growth than domestic demand, which is likely to remain sluggish. These positive trends have been bolstered by an improved economic policy that has shifted from the import substitution favoured in 2014–2015 to a greater focus on support for exports, particularly of processed and secondary goods. There is still room for further policy improvement, however. Notably improvements could come from decreasing interest rates, rationalising the exchange rate policy and supporting SMEs. Most significantly, stability and a smooth exit from the electoral cycle are needed for such improvements.

IMEMO forecasts that the world economy will grow at a rate of 3.8%, while the IMF forecasts that the rate will be at 3.7%, with both organisations forecasting the same rates of growth for the remainder of the decade; both of these figures are up from the growth rate of 3.6% between 2011 and 2017 (IMF, 2017). IMEMO sees a long-term trend of *developed* economies growing at faster rates than *developing* economies, which will grow more slowly than in the first decade of this century. Also, world trade is expected to grow at rates exceeding GDP growth.

Unemployment remains the most painful global economic problem, albeit one that is currently decreasing, but IMEMO sees a positive basis for long-term global development through science and technological innovation, which will also be necessary to deal with environmental challenges. The world is only at the beginning of several revolutionary changes in the energy sector, and fundamental changes are afoot in the production of cars and other vehicles: the planned bans of many European countries on producing internal combustion engines, which are to be implemented by 2040, have been complemented by some manufacturers, such as Volvo, implementing timelines in which the bans would be carried out earlier. All of this brings uncertainty but also opportunity in the coming years. The uncertainty, challenges and opportunities all point to the political – and geopolitical – context of global economic development, which is dealt with in more depth below.

GEOPOLITICS: THE WESTERN VECTOR

2017 was marked by elections in both Europe and the US. The shocking presidential election results in the US in 2016 kept the subject on the agenda for most of the year and only towards the end of 2017 did an understanding seem to emerge that Donald Trump's victory was no accident and that his political, economic and security agenda would be of high significance for the future world order. Trump is a leader with a pronounced personality type and so the 'chemistry' or lack of it that he develops with various world leaders is highly important but also makes these relations less predictable. At the same time, the value of his personal contacts - even short, 'on the go' ones, as with Vladimir Putin in Vietnam during the APEC summit - is offset by the Washington bureaucracy and foreign and security policy communities, which seem to emphasise how hard it is to work with such an *enfant terrible*. Former CIA Director John Brennan's comment in an interview is characteristic of this trend in the US establishment: "It's either naiveté, ignorance or fear in terms of what Mr. Trump is doing vis-ą-vis the Russians" (e.g. Politico, 2018)

The following section of the forecast deals with the issues raised by the Trump presidency – and other matters – in terms of US domestic and foreign policy before looking at the European aspects of the Western vector of Russia's worldview.

US Domestic Policy

The Congressional mid-term elections will dominate the US domestic political scene in 2018. Legislative activity will give way to electioneering and partisan squabbles, with their intensity likely to be comparable to that of the presidential election of 2016 owing to the personality of President Trump, whose radicalism will effectively turn the elections into a referendum on the activities of his administration.

Trump remains a dangerous outsider for many parts of society and, indeed, for the Washington establishment, yet no united bipartisan front has emerged to fight against the President. The Republicans seek to use the President's readiness to make the most unpopular political steps within the country and abroad for the benefit of the party. The Democrats are getting ready to fight against him. Nonetheless, two parallel power structures have formed: one around the President and the second around Congress (Borisova and Zhuravleva, 2017). The election campaign will reinforce this schism.

American society at large is split as well, with Trump continuing to provoke strong reactions. At worst, for many people, he is *'not my president'*. This slogan, popular at the end of 2017, may become one of the slogans for the 2018 campaign. The elections may become a battle of 'two Americas' – the liberal and reformist America versus the conservative America – and voter turnout may be higher than usual at the mid-term elections (Zhuravleva, 2017).

For the Republicans the 2018 congressional elections can be decisive in terms of their future status in the society and the party's orientation and development. The improving economy plays into their hands, with incomes growing and the poverty rate dropping to 12.7% (the same rate as in the pre-crisis year of 2007). At the 2018 elections the party could be subject to major losses, but an unexpected triumph for them, like the one in 2016, cannot be ruled out.

Congress's standoff with the President did not allow the Republicans to fully utilise their unique situation of having control over all the main institutions of the government. Despite this – and the fact that a majority of Americans (52%) opposed it – Trump managed to pass his tax reform, which may well increase the budget deficit in the long run, contradicting the Republican Party policy. However, he is unlikely to be able to further implement his legislative agenda given the public sensitivity regarding health care and immigration, which means that Congress is unlikely to commit itself to those issues in an election year. The President is likely to issue many executive orders but the majority of them will be openly sabotaged at the level of the departments, the judicial system, and state and municipal authorities. Congress, meanwhile, will increasingly try to bypass the White House and work directly with departments and agencies.

The question of relations with Russia and issues regarding its alleged 'interference' in the 2016 elections will continue to be significant in the 2018 campaign, and this issue will provide another way in which Congress will be able to exert at least some control over the otherwise unpredictable President. The unpredictable and volatile domestic political situation will also inevitably affect US foreign policy in 2018.

US Foreign Policy

A key driver of US foreign policy in 2018 will be President Trump's economic nationalism, which is intended to improve the US economy by boosting the American presence in world markets and exports of goods and services 'made in the USA' as well as strengthening the US's energy independence and attracting inward investments. The substantial planned increase in military expenditure (more than 50bn USD in the 2018 budget) will also be a significant factor and there is likely to be a further increase of at least 30bn USD in 2019. Apart from strengthening US military capabilities, this spending is also used as an instrument to stimulate the economy in the defence industry but also through dual-use research and development. Furthermore, President Trump uses such spending as a means to address internal political issues by strengthening relations with Congress and within the Republican Party as well as garnering support from American business. These factors will contribute to the Trump administration's foreign policy in a number of areas, primarily the Asia-Pacific and Euro-Atlantic regions.

The Indo-Pacific

The US is developing an approach that sees the Asia-Pacific, Indian Ocean and South Asian regions as one mega region due to an extensive interpretation of the political, economic, security and, especially, logistical and infrastructural connections between these areas. The US places special value on India, particularly with regard to military and technological cooperation, and it thus seeks to drive Russia out of this market. This approach is primarily driven by Washington's desire to build a new system of checks and balances that will amount to a limited form of deterrence of China, despite the Trump administration's otherwise pragmatic dealings with Beijing.

The US will try to limit China's economic and political influence as well as its opportunities for projecting its military power by increasing its own military presence in the region in the air and at sea, particularly through its 7th Fleet and intensified deployment of ABM elements in the region. This military strengthening is also prompted by the tensions on the Korean Peninsula, which are unlikely to be resolved through a compromise but are also unlikely to see a resumption of bullying or bullish speculation by the two sides. The tensions can also be expected to increase in advance of the annual joint military exercises of the US and the Republic of Korea at the end of 2018.

Besides military deterrence, however, the US is also interested in expanding American companies' (including LNG producers) presence in the Chinese market, attracting investments from China, bringing Chinese producers into international mechanisms regulating the use of intellectual property, copyrights and other norms and standards, and also in continuing its dialogue with Beijing on a number of regional, global economic and political issues, many of which will be relevant in 2018.

The Euro-Atlantic

The Trump administration has two key sets of aims in relation to this region and America's NATO allies. The first aim is to make the allies increase their military spending up to the NATO target level of 2% of the given country's GDP, which, even if it is only partly achieved, could be presented as a success for the administration. The second aim is to gain the support of the allies for the steps taken by the US in relation to ABM deployment, and air defence systems development and build up as well as other projects. The ABM issue will also depend significantly on the US's relations with Iran (with a compromise between them being unlikely), but also on the extent that both the US and Russia are interested in maintaining the INF Treaty. If the INF Treaty regime fell apart, then it would give the US the best possible argument to persuade its allies that a more active ABM deployment is necessary.

In the economic sphere the Trump administration's relations with EU countries and Great Britain will centre on two main goals, in addition to limiting Chinese trade and investment: reducing trade barriers for American manufacturers and increasing European FDI in the US. These tasks will be addressed primarily through bilateral agreements and initiatives, particularly with Great Britain, France and Germany, rather than the multilateral TTIP framework, although discussions of this partnership will continue. The US is particularly interested in expanding the presence of American companies in European energy markets, especially the gas market, and this can also be seen as a motivation for its strengthening of the sanctions on Russia, which is a key competitor in this field. The dynamics of the US and EU relations with Russia and the situation in Ukraine will also continue to have a considerable impact on transatlantic relations.

Russia

The elections in Russia and the US mean that America's anti-Russian campaign will continue to be an essential element of its foreign policy in 2018. However, there are also several key geopolitical arenas in which the relations will play out. The US's likely withdrawal from the Joint Comprehensive Plan of Action (JCPOA) and further deterioration of the US-Iranian relations will significantly slow down the reaching of a political settlement in Syria and increase the military tension in the Middle East more widely. Any move toward a division of Syria by military or political means would complicate the dialogue between the US and Russia and hinder the creation of a new political system in the country, leaving it trapped in the status quo.

In Ukraine, however, there is significant scope for improved relations, particularly if the issue of deploying UN peacekeepers to the East of the country can be resolved. A compromise is possible here and the Trump administration can be expected to exert some pressure on the Ukrainian leadership, which would have to drop its current approach whereby 'war' is used as the solution to internal political questions. Any progress in this regard would pay dividends for the Trump administration, especially in its relations with its European partners, although there is likely to be considerable resistance from foreign policy elites in Canada, Poland, the Baltic states and some Western European allies. Washington will therefore tread carefully, alternating between a substantive dialogue with Moscow and the introduction of new anti-Russian sanctions and military-political initiatives under NATO auspices to provide military and other aid to Ukraine.

Arms Control

The US policy toward Russia will also be significantly linked to arms control, although there are no prospects for an intensified dialogue about it in the near future despite the looming (2021) expiration of the New START treaty signed by the two parties in Prague. Substantive negotiations about arms control will not begin until 2019 at the earliest; that is, they will begin once the Trump administration decides whether to prepare the ground for a dialogue with Moscow in the near future or leave the issue until after the next presidential elections. Washington's position will be determined by questions relating to the modernisation of its strategic offensive capabilities and the upgrading of each of the elements in the nuclear triad. When taking account of the capabilities of China, let alone Russia, the US will not be interested in quantitative reductions of the thresholds set by the Prague Treaty of 700 carriers and 1550 warheads.

ABMs also remain important (generally as well as for transatlantic relations) and it is highly probable that the Trump administration will formulate its new approach to strategic missile defence deployment in 2018-19. Another likely priority for Washington will be the substantial development of non-strategic defence capacities and optimisation of interception systems, which will, like the strategic aspect, limit the field for political dialogue with Moscow on this matter. The erosion of the INF Treaty regime may well become the most pressing problem in the US-Russia relations in regard to arms control. Particular interest groups in US military and political circles aim to undermine this treaty and are pushing for significant increases in missile defence deployment in Europe and the Asia-Pacific region, which again reduces the likelihood of a constructive compromise. A failure to deal with the two countries' mutual accusations of treaty violations in 2018 will further weaken the regime and could lead to the deterioration of the military and political situation, particularly in Europe.

Europe

Europe entered 2018 with a little more confidence. Despite uneasy expectations in the context of the widespread appetite for protests and powerful campaigns launched by populist, far-right forces, the results of the recent elections in Germany, France, Great Britain, the Netherlands, Austria, and Czechia have shown that the political centre is still able to resist radicals. For the centre to hold, however, it has been compelled to adapt to new challenges and take account of criticism from the far-right (Baranovskiy and Kobrinskaya, 2017). Substantial challenges – due to the strong representation of radical forces in parliaments and a sharp decline in the popularity of traditional parties (for example, SPD in Germany) – arose when the new coalitions and governments were formed.

However, the problems which caused the growth of anti-elite protests in Europe (as well as in the US, Japan, and Australia) will remain for the foreseeable future: growing social imbalances, rising poverty, erosion of the traditional system of basic values, and erosion of the middle class; the migration crisis; instability of coalition governments (and permanent electioneering instead of real progress in economy and the social sphere); and imbalances in the work of the EU supranational structures. In this context the drive for self-identity – national and/or territorial – will become more acute in the majority of the European countries. This tendency is also manifest in the aspirations of the EU 'newcomers' in CEE to assert their identities more vigorously.

In 2018 Europe will continue to contend with two opposing tendencies which came to light during 'Brexit' and other protests. The first is the formation of a 'core' of countries (first of all, Germany and France) and political forces which intend to consolidate the EU, whether through a traditional or a multi-speed integration union. The second is the trend of disintegration and separatism, as seen in Catalonia as well as in the UK. Contrary to pessimistic forecasts, the EU has shown considerable durability, and polls of young people in CEE as well as Germany show their strong support for EU membership, though it is allied to demands to reform the Union (Institute of Public Affairs, Bertelsmann Stiftung, 2017). Bertelsmann Stiftung noted that Albert Hirshmann's (1970) model of behaviour in a consumer society – "Exit, voice and loyalty" – is now apt for EU member states facing a choice between Brexit and a sustained protest.

Nonetheless, the EU is emerging from its crises, during which (and despite its contradictions) unity was a necessary condition for preventing the worst-case scenarios from materialising. Several EU member states see the Union's rules as an encumbrance but this is not yet critical and it is unlikely that there will be any other exits in the near future besides Britain's. Despite this, however, if Euroscepticism gains in influence then a 'loosening' of the EU could be expected as member states will more flexibly interpret the Union's rules at national level to ameliorate the perceived rigidity in Brussels. This will also apply in foreign policy, where common positions will only be found in a few areas, and member states will seek to balance their relations with each other as well as with third countries.

EU members continue to advocate for the resolution of the Ukraine crisis but are unwilling to take further steps to make rapprochement a reality. The Union's profound internal crisis has significantly changed Brussels' approach to its 'Eastern Partnership', and the CEE countries that had strongly supported Ukraine's integration aspirations – Poland, Hungary and Romania – have all addressed their harsh protests to Kyiv, notably in relation to the legislation regarding compulsory education in the Ukrainian language. A new pragmatism was also apparent in the November 2017 signing of the Comprehensive and Expanded Partnership Agreement (i.e. the 'light' version of the Association Agreement) with Armenia, which is a member of the Customs Union and the Eurasian Economic Union. It is not realistic yet to foresee the 'integration of integration projects' (between the EU, the EEU and the BRI) but some Europeans are speaking of it. Interestingly, these Europeans include the former EU Enlargement Commissioner Stefan Füle, who had previously insisted on an either/or approach, but who changed his tune when speaking at the Prague Insecurity Conference in December 2017.

This potential is countered, however, by Europe's negative perception and mistrust of Russia, which have become habitual and are unlikely to change anytime soon, despite the economic costs (to EU businesses in some sectors) of maintaining the sanctions. Maintaining the unity on the sanctions will prove increasingly difficult, though, as it becomes clearer that they are mainly for the purpose of economic benefits in the energy sector – notably for US companies – and the decision on Nord Stream 2 will be emblematic of Europe's direction in this regard. Two countries traditionally critical of Russia - Sweden and Latvia – will have elections in autumn 2018 and the 'Russian question' will be mobilised as part of the campaigns. In Sweden this will manifest itself in discussions over NATO membership, which could only increase regional tensions. In Latvia, politicians representing the interests of Russian speakers will assert themselves, but the forward looking among them will not limit themselves to the language community but rather will seek to show that pragmatic relations with Russia are of general benefit, a strategy that is likely to be successful and will hopefully avoid the excess hostility that has characterised the recent relations (Baranovskiy and Kobrinskaya, 2017).

Overall, European relations with Russia are likely to be less heated than in recent times, thanks to the downturn in hostilities in Ukraine, and bolstered by the Kremlin seeking stability in an election year. The Russian leadership is thus likely to keep its distance from the 'understanding Russia' and 'understanding Putin' (*Russland-Versteher, Putin-Versteher*) forces in Europe in order to avoid exacerbating splits in the 'old continent'.

GEOPOLITICS: THE EASTERN AND EURASIAN VECTOR

The 'Greater Eurasian Partnership', the grand project announced by President Vladimir Putin which seeks to integrate the EEU with the BRI, shows and reinforces the profound interdependence of the Eastern and Eurasian vectors of Russian strategy. In 2018, Russia will continue to strengthen and carefully build its partnership relations with China, which have been characterised by Western experts as a "quiet rivalry" (Kaplan, 2017). At the same time Russia will continue to diversify its partnerships in the Asia-Pacific region through bilateral as well as multilateral formats. Creating or maintaining balance remains a priority.

The EEU plays a special role in the formation of the 'Greater Eurasian' space and optimising the union will be a priority for Moscow in 2018, as it will build on the expansion that has already had a positive effect on its development. However, the EEU has also faced problems stemming from multiple sources, notably the Ukraine crisis and its consequences in the form of the Western sanctions, the Russian counter-sanctions and the fall in energy prices. Other problems stem from the model of integration – which is traditional, like the EU's – and the accelerated rate of EEU institutionalisation, which negatively affect the development of the Union given that independence and sovereignty are recent and strongly defended phenomena for many of the countries involved. A more open and flexible approach may therefore be preferable, and in any case it may even be necessary – and driven by the interface with the BRI.

China (which is discussed in more detail below) plays an increasingly important role in the EEU countries through its growing trade and investment there, and maintaining the political and military-political balance in Russia's relations with China is a priority. The Shanghai Cooperation Organisation (SCO) format will be key in this regard, particularly following its expansion to include India and Pakistan as members and the inclusion of Afghanistan, Belarus, Iran and Mongolia as observers. Three states have applied to participate in SCO summits – Bangladesh, Egypt, and Syria – and six countries are its partners in dialogue – Azerbaijan, Armenia, Cambodia, Nepal, Turkey, and Sri Lanka. It is possible that in a year or two Iran will become the next SCO member country. Despite its broad 'umbrella' character the SCO plays a positive role in ameliorating multiple military contradictions and conflicts, which are sometimes profound. Russia sees the SCO enlargement as not only an instrument of political and military-political positioning, but also as an additional field for mediation which is very much needed in the organisation itself as well as in the regions represented in it.

Chinese Domestic Policy

The key factor in the Asia-Pacific region will be developments in China and their impact on the country's foreign policy in both political and economic terms. China's political situation in 2018 will be driven by the outcomes of the 19th Congress of the Communist Party of China (CPC) in October 2017, which extended President Xi Jinping's mandate for another 5 year term. No significant changes in the government are expected but the congress led to the highest concentration of power in the hands of a Chinese leader since Mao Tse Tung, as evidenced in Xi's ability to amend the CPC's rules, without open resistance, by putting his 'socialism with Chinese characteristics in a new era' on a par with the ideological heritage of Mao and Deng Xiaoping.

Xi's recognition as 'leader no. 3' in modern Chinese history by the congress will be used to promote domestic, mainly economic, reforms aimed at liberalising public and business life, as well as to drive China toward global leadership. The concentration of power will likely allow for further market reforms and boost China's international standing but in the medium and long term it is likely to run up against the limits of 'manual control' over highly diverse economic, cultural and ideological interests which are inherent to Chinese society today and which could become politically destabilising.

Xi has largely jettisoned the figures in the government who remained as the 'human heritage' from his predecessors in the position of the party leader and, contrary to the tradition established in the reform years, has not designated his successor. Possibly the successor will be one of the current crop of 50-year-old Chinese politicians who will be brought up under the leadership of Xi himself, and the March 2018 congress will be an important personnel milestone. IMEMO analysts see that the consolidation of power may bring stability but will be problematic in the fight against corruption, which is used for intra-party score settling and has effects across a large number of fields, including science, teaching and research.

Chinese Foreign Policy

China's bid for global leadership will dominate its foreign policy actions in 2018, including attempts to develop specialised interaction with the US for this purpose and more rigorously seek a solution to the problem of the North Korean nuclear missile program (Mikheev and Shvydko, 2017). US President Trump's visit to China was important for Xi Jinping, as it demonstrated his status as a strong global leader for the 'new era', capable of building better relations with the US – the main global actor as China sees it. The importance of this visit was emphasised in its designation as "state+" and contracts worth nearly 300bn USD were signed during the visit, with the greatest importance given to the agreement on the cooperative creation of infrastructure for supplies of oil and LNG to China from fields in Alaska, with nearly 40bn USD of investments allocated to this purpose.

The US-China relationship is gradually approaching a level which would allow for consequential, coordinated action on major international issues. This has not yet, however, brought the two countries' positions on North Korea into alignment, despite their mutual declaration on the unacceptability of a nuclear armed Pyongyang. In 2018 China will react more strongly to North Korean launches, although the limits of this toughness, particularly in relation to oil deliveries or military cooperation with the US, are not yet clear.

In general, in 2018 Chinese foreign policy will be more active and energetic, which corresponds to the proclaimed status of China as a 'powerful power' and of President Xi Jinpiing as a 'strong leader'.

The Post-Soviet Space

Ukraine

2018 will see moderate economic growth under difficult internal political conditions in Ukraine. With presidential and parliamentary elections scheduled for 2019, the Ukrainian authorities will seek to reduce the adverse social effects of much needed reforms. The country's high dependence on external financing will remain and the IMF will continue to closely observe its progress in making structural reforms, as it previously failed to satisfy the conditions for receiving a new 3.6bn USD tranche of money in 2018. A breakdown in cooperation with the IMF is the main macro-financial risk in 2018 and this is increased by the requirements for land reform as well as control of public expenditure, neither of which will be popular with voters.

Intra-governmental conflicts have burgeoned, notably in relation to the activities of the new anti-corruption agency, the office of the General Prosecutor and the Security Service of Ukraine. There was a notable increase in political tension in the country towards the end of 2017 against the background of the rallies and protest actions of Mikhail Saakashvili and his supporters against the authorities in power. However, his 'Movement of New Forces' did not attract mass support – despite widespread discontent, Ukrainians do not want another Maidan, especially not under the conditions of the conflict in the east of the country. President Petro Poroshenko and former PM Yuliya Tymoshenko only attract 7–13% in opinion polls, with no other candidate exceeding 9% (according to the data provided by the polling organisations Rating, KMIS and Sofia) (Ukraine Elections, 2017). Nonetheless, the electoral battle lines are likely to form between 'pro-European' and 'nationalist' forces, with a third, pro-Russian force unlikely to emerge.

The main geopolitical risk for Ukraine in 2018 will continue to be the conflict in the Donbass, which is likely to see periodic, localised upticks in violence rather than large-scale military operations by Kyiv. Citizens are much more in favour of a negotiated than a military solution to the conflict but are adamant about the return of the Donbass under Ukrainian control (Ratinggroup, 2017). The eventual deployment of a peacekeeping mission may become an important stabiliser for the East of the country, but reaching a compromise on this issue is complicated by the forthcoming elections.

Belarus

Accelerating growth rates after two years of recession have led to a slight increase in standards of living as well as bolstering political stability in Belarus. These trends were further augmented by the resolution of the dispute with Russia over energy distribution and transit, which has helped intensify economic cooperation between the two countries and improve their relations more generally. Belarus also significantly improved its relations with the EU and continued developing positive relations with China and other states.

Belarus' multi-vector external positioning has allowed it to become the venue of several large international events, notably a session of the OSCE Parliamentary Assembly (PA) in July 2017 and a meeting of heads of governments of the Central European Initiative countries in December. At the OSCE PA meeting President Lukashenko proposed an expanded OSCE meeting to be held in 2020 on problems of European and global security within the new Helsinki process (Helsinki-2) and expressed the readiness of Minsk to become a venue for any and all events within this initiative, with preparations for this to be launched in 2018.

Research conducted in 2017 claimed that a majority of Belarussians support their country's continued independence but if presented with a choice between integration with the EU and a union with Russia, they show a clear preference for the latter, with 64.5% of the respondents saying that this would definitely or most likely be better, and with only 14.1% saying the same of the EU (Gomel Today, 2017). This outlook can be expected to be stable in 2018 and relations with Russia, Belarus' closest ally, are also expected to remain largely unchanged but this will not hinder the intensification of dialogue between Belarus and the EU. This development has been facilitated by Brussels' more pragmatic approach, which has decoupled its relations with Belarus from conditionality regarding democratisation, human rights and other issues. In the absence of an Association Agreement, the parties are working out their 'Partnership Priorities' for the period up to 2020, which may be adopted in 2018. Moreover, an EU delegation is expected in Minsk in 2018, which may herald an agreement to reduce the price of Schengen visas for its citizens (currently 60

EUR, while its neighbours pay 35 EUR), a step that would be welcomed by ordinary Belarussians.

Moldova

In Moldova, the parliamentary elections will be the main domestic political event of 2018, and they need to resolve the issue of the configuration of power in the country, which constitutionally remains a parliamentary republic, despite the return in 2016 of direct presidential elections. The Democratic Party is likely to remain in power and it retains the support of Moldova's western partners, who see it as a source of internal stability as well as Western-oriented foreign policy. The run up to the elections has seen the traditional use of anti-Russian rhetoric and a series of provocations by Chisinau towards Moscow: the expulsion of five employees of the Russian embassy; the designation of Dmitry Rogozin (Moscow's special representative for Moldova) as a *persona non grata*; and the adoption of a law on fighting "Russian propaganda" (Korrespondent, 2017; RBC, 2017). This ruination of the relations was further shown in the instigation of criminal proceedings and the issuing of an arrest warrant in Moscow against the Democratic Party leader Vladimir Plakhotnyuk, who is accused of being involved in assassinations (Kommersant, 2017). It seems likely that the Moldovan authorities will continue to appeal to national pride and demand that the country stand up to the 'aggressive' Russia as a tool of domestic policy.

Transnistria

The political situation has stabilised in the wake of the 2016 presidential elections, and the political pressure from Chisinau and Kyiv has ceased or lessened considerably. Chisinau had been interested in using such pressure as a way to improve its relations with the EU and the US but went too far in this, which was made clear when its item on the withdrawal of Russian troops from Transnistria was not included on the agenda for the UN General Assembly. The region is thus unlikely to come under a renewed external pressure in 2018, which also means there is little likelihood of a political resolution to the frozen conflicts with Chisinau, Tiraspol, and the external players interested in upsetting the status quo on the Dniester.

Central Asia

In Central Asia, 2018 will likely be politically stable with the possibility for an improved regional integration and a deepening of the interstate cooperation. In 2017 an interim agreement on the Kyrgyz frontier was signed, and direct air flights between Tajikistan and Uzbekistan resumed (Caravanserai, 2017; DW, 2017); and "the road map of reconciliation" was signed after a Kyrgyz-Kazakhstan border conflict (Zakon, 2017). Nonetheless there will continue to be considerable involvement of external forces in the politics and security of Central Asia. Russia will try to bring the region closer to the EEU and the Chinese BRI transport, logistic and economic initiatives.

The South Caucasus

There will also be considerable external involvement in this region, where the situation is distinctly less predictable due to the high number of unresolved conflicts: the Georgian-Abkhazian conflict, the Georgian-Ossetian conflict and the conflict between Armenia and Azerbaijan because of Nagorno-Karabakh. Any change in the existing status quo will be fraught with either new clashes, or the escalation of the conflicts from being 'frozen' to being armed. As in Central Asia, but with a higher probability, there is also the possibility of the emergence of terrorism, an uncontrolled circulation of arms and religious radicalism in the Southern Caucasus. For Russia, the priority in the region is the cooperation with Iran on joint projects, especially in the Russia-Azerbaijan-Iran format, with a particular focus on the development of the 'North-South' international transport corridor.

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The year 2018 – with the preserving of the existing options and the emergence of new options for the active foreign policy of Russia - will be full of challenges, both of a substantive character – for example, in the efforts to reach a peaceful settlement in the Middle East – and of a propagandistic and politicised nature. The latter are related to both the forthcoming mid-term congressional elections in the USA, and the presidential elections in Russia, which draw global attention and are widely covered by the western media. This situation will require from the Russian government a particularly reserved, balanced and forward-looking approach. The Ukraine crisis remains the main obstacle to the normalisation of the dialogue of Russia with its partners in the world. A compromise in its settlement may create new opportunities for the Russian foreign policy and the development of the country in general. It would also be a good opportunity to overcome the anti-Russian sentiments that have accompanied Russia's increasing influence in world politics in recent years.

ENDNOTES

[1] *The Post-American World* is the name of a non-fiction book written by the American journalist Fareed Zakaria and published in 2008.

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