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OF WORLD ECONOMY AND INTERNATIONAL RELATIONS  
RUSSIAN ACADEMY OF SCIENCES

**RUSSIA AND  
THE WORLD: 2024**  
*ECONOMY AND FOREIGN POLICY*

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**PART I**  
**GLOBAL TRENDS**

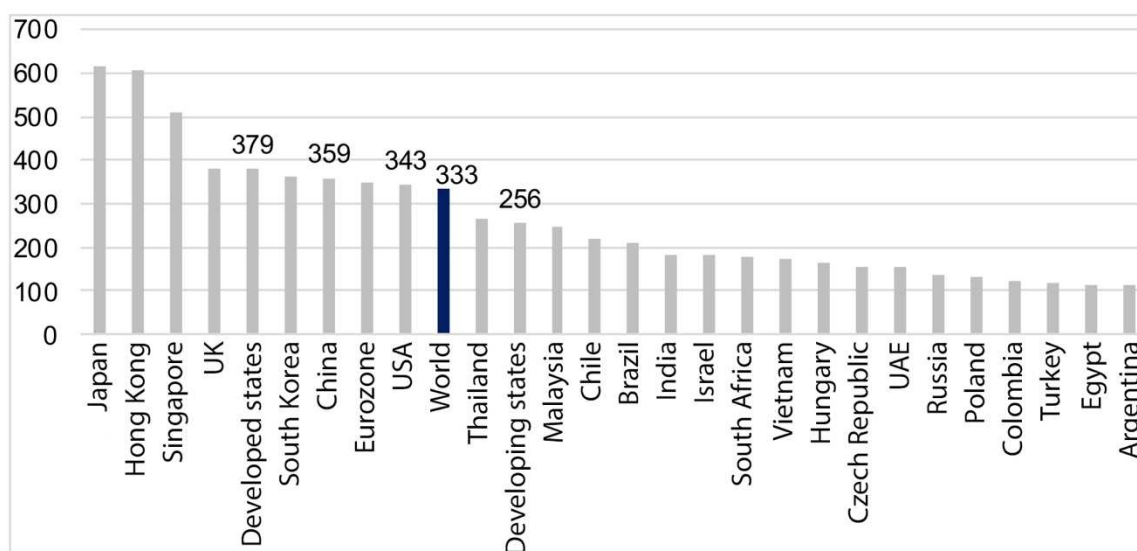


## ECONOMIC TRENDS

**Global economic growth – trajectories of different speeds:** The global economic dynamics in 2023 was decisively determined by the macro regulators' policies aimed at overcoming accumulated COVID-related constraints and the exogenous geopolitical shock of the Ukrainian crisis, which contributed to the intensification of the energy crisis in the EU countries and stimulated the growth of global prices for food, fertilizers, metals and natural gas.

The slowdown in global economic growth is caused by the deficit of demand, which is periodically pumped into economic systems through emergency government support and stimulus programs. The debt to GDP ratio in the world reached 333% in the 3rd quarter of 2023 (Figure 1). In developed economies, the ratio amounted to 379%, and in developing economies – 256%. The economies of China and the United States are heavily overloaded with debt – 359% and 343%, respectively. Debt continues to grow worldwide, as there are no other ways to stimulate economic dynamics while leaving the main structural and institutional barriers to economic growth generally unchanged.

**Figure 1. Total debt to GDP ratio, 3rd quarter of 2023, %**



Source: Institute of International Finance.

Developed countries in 2024 will continue the process of suppressing inflation by maintaining key interest rates at elevated levels, which will exert downward pressure on global economic growth. Stimulating growth by increasing primary deficits of state budgets seems inevitable, but due to the high level of accumulated public debt, it is impossible to significantly increase it, which will also keep economic growth rates below trend levels.

**USA:** In the USA, the policy of suppressing inflation by the fall of 2023 began to show results, but the Federal Reserve System (the Fed) will continue to keep the interest rate above 4% in 2024. Observations over long historical periods show that high interest rates in the US economy almost always precede a recession. Perhaps this time the USA will be able to avoid recession. The factors of slowdown in growth will be the exhaustion of excess savings accumulated during the pandemic, insignificant growth of personal income in real terms and lower profitability of companies in the real sector due to demand constraints. In addition, interest accruals interrupted by the coronavirus epidemic resumed on September 1, 2023, and student loan payments restarted on October 1, 2023,

while total student debt exceeds \$1.63 trillion. This will put additional downward pressure on consumer spending.

**EU and Euro area:** The European Commission estimates that GDP in the EU and the Euro area will grow by 0.6% in 2023. In 10 EU countries, including Germany, GDP is expected to decrease. Due to rising energy prices, primarily for natural gas and electricity, resulting from mistakes in determining the speed of the energy transition and the attempt to build a gas market based on the North American model without proper justification, European economies are facing higher inflation and a decline in the global competitiveness of the traditional industrial core in Western Europe. In 2024, economic growth in the EU, excluding Sweden, will move into positive, but will amount to less than 2%. In Germany, GDP growth will not exceed 1%, and maintaining even this low growth rate will require, as in 2020 and 2021, a revision of the debt brake or constitutional restriction on the growth of net government debt.

**Developing countries** will also experience greater differentiation in terms of economic growth rates. The countries that find themselves in a more favorable position are: countries with large populations that have been able to develop relatively effective systems for managing economic growth, especially China, India and Indonesia; countries with natural resources, including deposits of non-ferrous and rare earth metals needed to ensure the energy transition; countries benefiting from the reshaping of global value chains as a result of the growing geoeconomic confrontation between the United States and China (Mexico, Vietnam, Thailand).

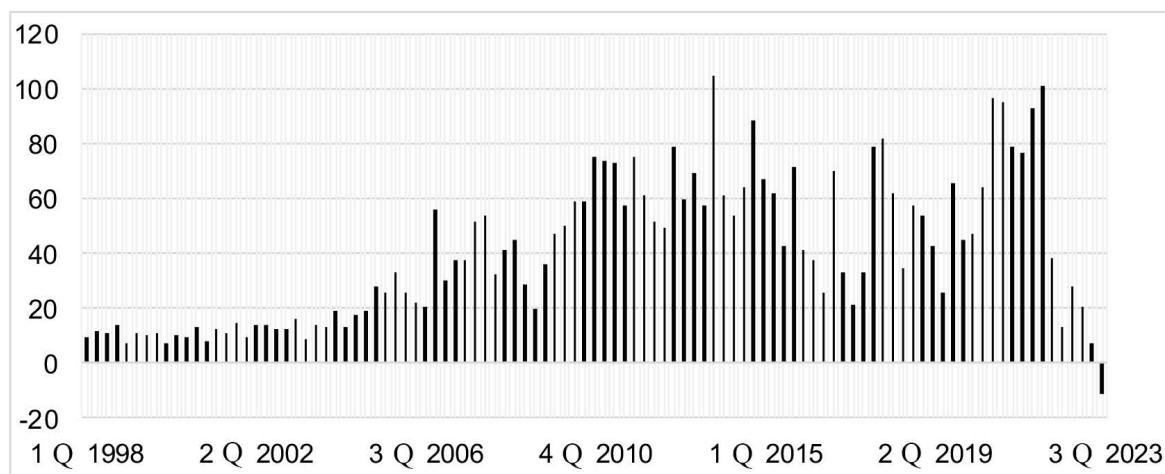
Debt and budget deficit problems and high interest rates in developed economies will reduce the flow of resources to developing economies in the form of direct and portfolio investment, as well as credit and loans. The poorest developing countries are already spending more than 10% of their export revenues on their official and publicly guaranteed debt alone, which is the highest level since 2000. At the same time, most developing countries, whose total external debt has doubled over the last ten years of cheap money and reached \$9 trillion, are at risk.

**China:** China maintains economic growth at a rate higher than the global average by increasing the deficit, which, taking into account provincial expenditures and off-budget financing, exceeds 10% of GDP, and export demand, which was stimulated by the devaluation of the national currency. The nominal exchange rate of the yuan against the dollar is at its lowest level since 2008.

China continues to increase trade in goods with the United States. Some decline in Sino-US trade in 2023 is explained by a return to trend levels after record trade volumes in 2021 and 2022. The decoupling of the Western and Chinese economies is going through the investment channel rather than the trade channel. In January-October 2023, foreign direct investment inflows into the PRC fell to the lowest level in 25 years, and in the third quarter, foreign investors withdrew capital from enterprises in China (Figure 2).



**Figure 2. Dynamics of foreign direct investment inflow into the PRC economy (according to the balance of payments data), billion USD**



Source: State Administration of Foreign Exchange (SAFE) of the People's Republic of China.

**Global trade:** The volume of world merchandise trade in 2023 will grow at the level of about 1%, due to the increased growth of food and mineral prices, the weakening of national currencies of a significant number of countries against the dollar and high interest rates, which negatively affect the ability of developing countries to finance imports through new borrowing.

In 2024, assuming inflation declines and China reaches a sustainable economic trajectory, the growth rate of global merchandise trade is expected to exceed that of global GDP.

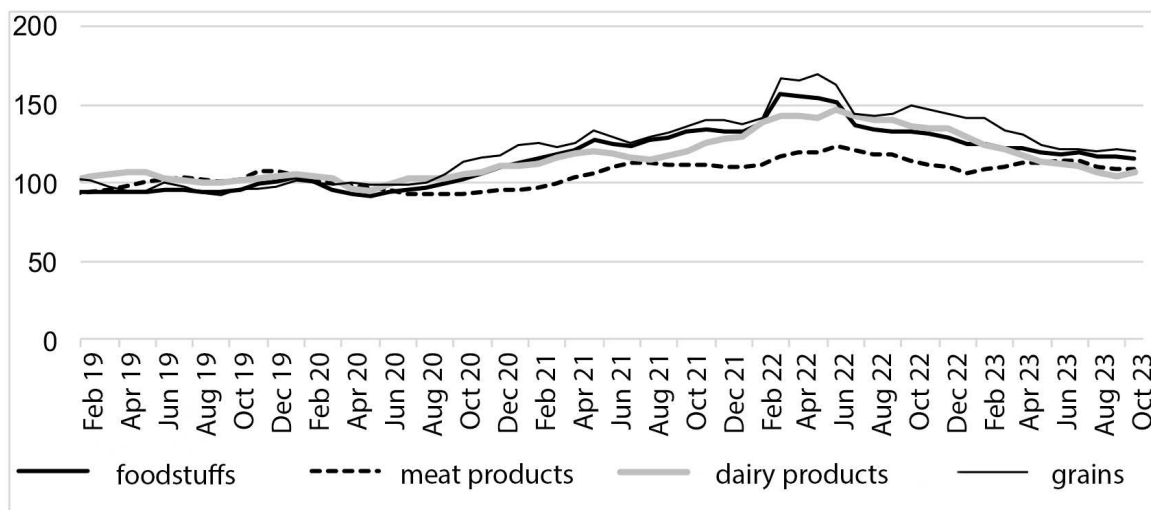
**US-China technology war:** The US continues to build up restrictions on technological cooperation with China. In August 2023, controls on direct investments in China in the field of microchips, artificial intelligence, and quantum computing were introduced; in October 2023, controls on exports of microchips to China were strengthened, and targeted sanctions were imposed on Chinese companies developing artificial intelligence. In response, China, citing national security concerns, imposed authorization requirements for graphite exports.

Despite the US and EU policy of restraining the development of key high-tech industries in the PRC, international technology transfer has not stopped, and the entry of Chinese companies into the most marginal and high-tech links of the value chain in the semiconductor market, including the market for chip design services, which began in the last decade, will continue.

**World oil market and regional natural gas markets:** Fundamental factors in the global oil market indicate some excess of supply over demand. Price quotations are maintained at a relatively high level by production cuts by OPEC+ alliance countries and additional voluntary cuts by Saudi Arabia. Downward pressure on the oil price is exerted by the increased interest rate of the Fed, reducing the appetite of financial market players to play with the prices of risky assets. Oil quotations had little reaction to the aggravation of the situation in the Middle East. The geopolitical risk premium in the oil price will only increase significantly if a direct military conflict between major regional players breaks out. Exogenous political shocks disrupted the pipeline gas market in Europe and gave a strong impetus to the development of the liquefied natural gas market. The US and Qatar have noticeably strengthened their positions as major LNG exporters.

**World food system:** By the end of 2023, price indices for staple food commodities have declined from the record levels of mid-2022, but have not returned to those of mid-2021 (Figure 3). In terms of value, global agri-food imports are growing faster than total global merchandise imports.

**Figure 3. Dynamics of world food price indices, 2014-2016=100**



Source: UN FAO.

Already by the beginning of 2023, the average number of hungry people in the world and their share of the world population had increased by about 1.2 times against 2019, to 735 million and 9.2%, respectively. The decline in chronic malnutrition in most subregions of Asia and Latin America has been overshadowed by the expansion of hunger in Western Asia, the Caribbean and Africa.

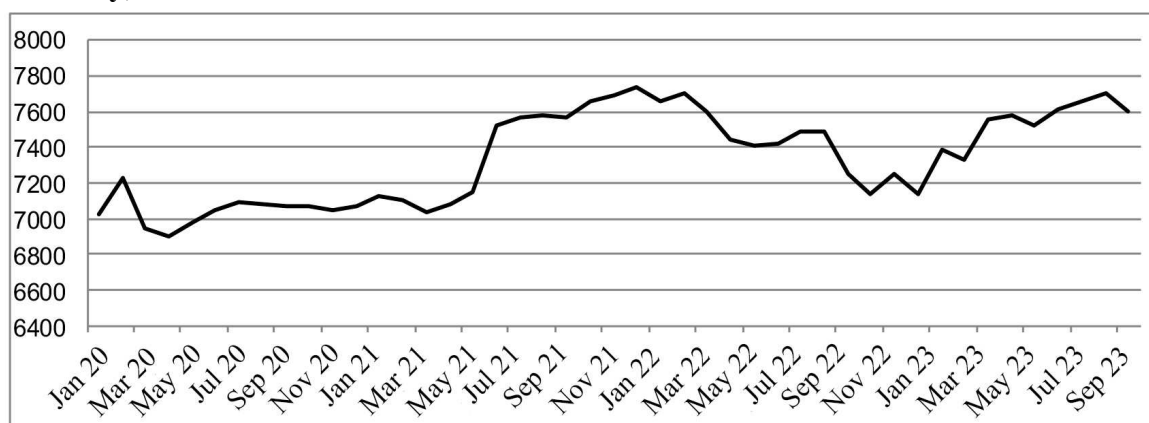
If current trends continue, even in a weakened form, in 2030, there will be 600 million hungry people in the world (7.1% of the population) instead of the Zero Hunger targeted by UN Sustainable Development Goal 2, and a healthy diet will remain the privilege of people in Europe, North America and Oceania. Failure to achieve Zero Hunger threatens the realization of other ten of the seventeen UN Sustainable Development Goals.

**World financial system:** All imbalances and structural tensions in the US and global financial system that reached critical values by the early 2000s and triggered the global financial and economic crisis of 2008/2009, which was resolved by the so-called unconventional monetary policy, persist.

The current US political system is becoming less and less effective in managing the development of the US economy. Already in 2011, the rating agency Standard&Poor's downgraded the US credit rating from the highest level AAA to AA+, and in August 2023, Fitch Ratings made the same decision. In November 2023, the rating agency Moody's downgraded the outlook for the US credit rating from "stable" to "negative". All agencies pointed to the growing dysfunctionality of the political system as the main reason for downgrading the US rating.

Despite the obvious negative trends, the US financial system continues to provide investors with the most reliable and favorable conditions for capital deployment, which is especially evident in times of global instability. Foreign investors continue to increase their investments in debt securities of the US Department of the Treasury (Figure 4).

**Figure 4. Dynamics of foreign investments in debt securities of the US Department of the Treasury, billion USD**



Source: US Department of the Treasury.

The decline in investment between January 2020 – September 2023 by China, Japan and the EU was more than offset by investment inflows from the UK, India, Switzerland, Taiwan, Singapore, Norway and many other countries (Table 1).

**Table 1. Foreign investments in debt securities of the US Department of the Treasury, billion USD**

	January 2020	September 2023	Shift
Total	7027	7605	578
EU	1714	1654	-60
Japan	1212	1088	-124
China	1079	778	-300
Great Britain	450	669	219
Canada	158	281	123
Switzerland	238	280	42
Taiwan	199	236	37
India	164	229	65
Brazil	283	223	-60
Hong Kong	253	197	-56
Singapore	161	187	27
Norway	98	122	24
Saudi Arabia	183	117	-66
South Korea	121	113	-8
Others	714	1432	718

Source: US Department of the Treasury.

The positions of the US dollar and the euro in the structure of central banks' foreign exchange reserves remain strong. The share of RMB in the reserves of the world's central banks reached a local maximum of 2.6% in the 1st quarter of 2022 and has recently declined slightly (Table 2).

Table 2. Currency structure of reserves of the world's central banks, %

	1Q 2019	1Q 2020	1Q 2021	1Q 2022	1Q 2023	2Q 2023
US dollar	58.0	57.9	55.4	54.9	54.6	54.6
Euro	19.0	18.8	19.1	18.6	18.4	18.5
Unallocated by currency	6.2	6.5	6.7	6.9	7.3	7.3
Yen, Japan	5.0	5.5	5.5	5.0	5.1	5.0
Pound, Great Britain	4.3	4.2	4.4	4.6	4.5	4.5
Other currencies	2.3	2.1	2.7	3.1	3.4	3.5
Dollar, Canada	1.8	1.7	2.0	2.3	2.2	2.3
RMB, China	1.8	1.9	2.3	2.6	2.4	2.3
Dollar, Australia	1.8	1.7	2.0	2.3	2.2	2.3
Franc, Switzerland	0.1	0.1	0.2	0.2	0.2	0.2
TOTAL	100	100	100	100	100	100

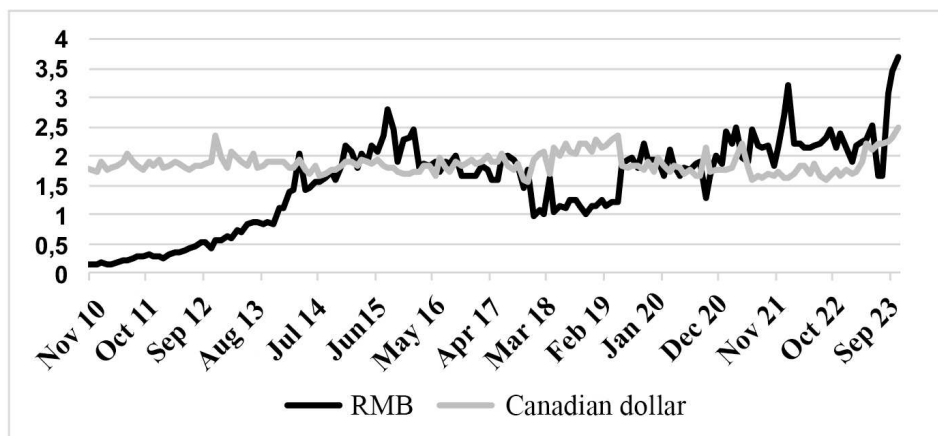
Source: International Monetary Fund.

An important trend since 2022 has been the increasing use of the RMB in China's foreign trade. In 2023, the volume of Chinese imports and exports carried out in the national currency reached 23% of the total volume of foreign trade turnover. The impetus for this process was given by Western sanctions, which forcibly removed Russian companies from the perimeter of payments in dollars and euros.

For the same reason, the share of RMB in the structure of currency payments in the SWIFT system has slightly increased – up to 3.7% in September 2023 (Figure 5). In the structure of global cross-border payments, the yuan competes with the Canadian dollar, still many times behind the US dollar and the euro. Although China operates its own international payment system CIPS (Cross-border Interbank Payment System), the real share of RMB in global cross-border payments is higher than it appears from the SWIFT data.

***The global energy transition – between pragmatism and ideology:*** Against the backdrop of and in connection with the growing problems with economic growth, differences in national energy transition strategies in the world's leading economic centers continue to deepen.

**Figure 5. Shares of RMB and Canadian dollar in the currency structure of cross-border payments in the SWIFT system, %**



Source: SWIFT.

In 2023, the US finally established its leadership in defining the global decarbonization and demethanization agenda. The federal government and industry regulators pragmatically allowed business to respond independently to the accelerated transition to a new energy system dominated by low-emission sources, with direct government support and tax preferences estimated at nearly \$2 trillion by 2030.

In China, the climate agenda has traditionally been subordinated to the task of ensuring high rates of economic growth. As China's current economic model is increasingly malfunctioning, the issue of reducing the absolute amount of greenhouse gas emissions has been postponed until after 2030.

The USA and China have restored full cooperation on the issues of climate and energy transition. At COP28 in the UAE, the USA, China and the UAE held a high-level meeting on methane and other greenhouse gases besides carbon. China will for the first time include nitrogen oxide in its national greenhouse gas emissions plan until 2035.

The EU remains the ideological leader of the energy transition. Despite the ongoing energy crisis and signs of deindustrialization, the European Commission and several leading European countries continue to pursue a course towards radical decarbonization and demethanization. Determined to implement the Green Pact, the European Commission believes that the best and most effective response to the energy crisis is to accelerate the energy transition by even faster construction of solar and wind power generating capacities.

In the EU, starting from October 1, 2023, the mechanism of transboundary carbon regulation CBAM has entered the transitional phase of the test mode which will last until the end of 2025. From 2026 CBAM will be fully operational. The implementation of CBAM in its current form will create economic difficulties not only for China, Russia, the UK and Norway, but will also affect negatively Albania, Bosnia and Herzegovina, Northern Macedonia, Serbia, Montenegro, Zimbabwe Mozambique, Moldova and Ukraine.

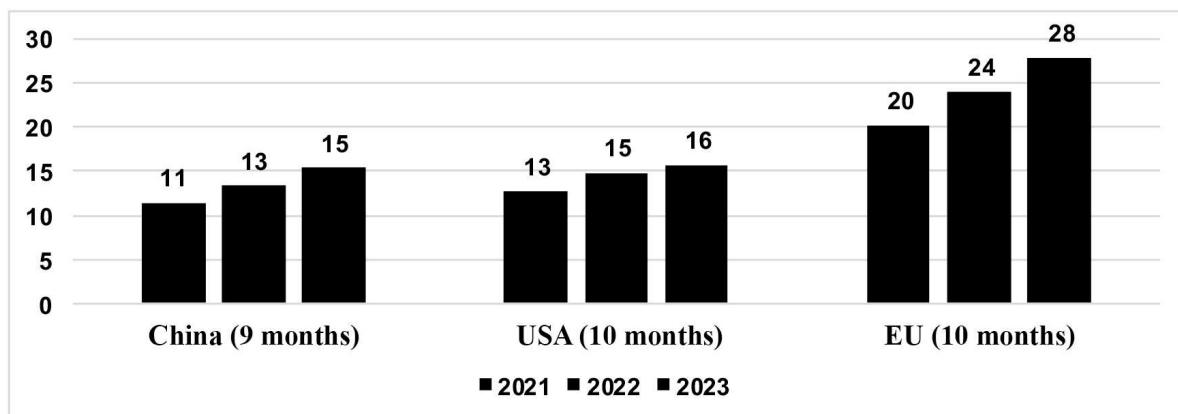
In November 2023, the EU Council and the European Parliament approved a preliminary decision to introduce regular monitoring of methane emissions from coal, oil and gas companies. From 2025, energy importers will be required to report on their sources of feedstock, including data on methods and procedures for measuring methane emissions during extraction and transportation, and to

provide information on the methane producer's participation in global methane emission agreements. In 2026, the European Commission will publish a transparent database and create methane intensity profiles of the world's countries. From 2027, imports will be subject to EU rules on monitoring, reporting, verification and methodology for calculating methane intensity. From 2028, importers will be required to report on the methane intensity of imported goods, and from 2030, imports will be fined for exceeding methane intensity thresholds.

In parallel, the USA established an international working group to develop a system for measuring, monitoring, reporting and verifying greenhouse gas emissions to provide natural gas market participants with comparable and reliable information. The group includes Australia, Brazil, Canada, Colombia, the European Commission, France, Germany, Italy, Great Britain, Norway, Japan and South Korea. It is this group that will ensure harmonization of interests of gas exporters and importers, which will become the basis for the development of the global gas market.

The two universal trends of the energy transition will remain the increasing share of new renewable energy sources in the electric generation structure (Figure 6) and the increasing share of electric vehicles in total automobile sales. At the same time, the main driver for electric mobilization of passenger cars remains the financial and economic support of consumers and manufacturers by the state.

**Figure 6. Share of solar and wind generation in total electricity generation in China, USA and EU in the first 9-10 months of the year, %**



Source: calculated on the basis of ember.org.

***Main trends and risks for global economic growth in 2024:***

The following is invariant for any scenario of the world economic development

- global economic growth rates will slow down due to demographic and structural factors. The slowdown of the PRC economy is particularly important, since it has been the largest contributor to global economic growth over the past two decades. The Chinese economy is overloaded with various imbalances and disproportions, and the PRC has not yet formed a new growth model;

- all leading centers of the world economy will intensify industrial policy with a focus on Manufacturing Industry 4.0, including the modern military-industrial complex. The main efforts will be concentrated on the development of materials science, semiconductors and electronics, optics, digital machine tools and equipment, industrial energy storage systems, broad-spectrum digital technologies, aviation and space;

- neither developed countries nor China have any other way to support economic growth except by increasing the debt burden, which has already reached a high level. Accordingly, the systemic risks generated by the development on loan model will remain at increased levels;

- Dramatic climate change – floods, heat waves, melting glaciers and permafrost, forest fires, etc. – is becoming the norm everywhere, and adapting to it will require significant efforts from governments and the private sector.

The main economic risk in 2024 is the persistence of inflation, that may require regulators to keep interest rates high for a long time, which in turn threatens to lead to stagnation and recession and slow down the recovery of growth rates to trend levels; as well as the primary government deficits in the largest economies going beyond controlled limits, with most negative consequences for the financial system and capital market. The possibility of a recession in the US economy also should not be discounted. Since July 2022, the spread between the interest rates of 10-year and 2-year Treasury bonds has been in the negative zone (Figure 7). Since the mid-1970s, such a situation has always been a leading indicator of a future recession.

**Figure 7. USA: interest rate spreads between 10-year and 2-year Treasury bonds, %**



Source: FRED.

Political risks will also be at an elevated level. In 2024, 40 countries, accounting for more than two-fifths of the world's GDP and population, will hold elections. These include Venezuela, Indonesia, India, Mexico, Russia, the United States, South Africa, Taiwan and Pakistan. Severe polarization in the elections in the USA and Taiwan and the rise of right-wing populism in Europe will impose additional constraints on economic policy and may prevent the pursuit of a rational economic course.

## POLITICAL TRENDS

World politics and security in 2024 will be dominated by the following three sets of issues:

- Conflicts and related global and regional politico-military and socio-economic instability and uncertainty; securitization and militarization of world politics;
- US elections and other electoral campaigns and events with the potential to change the situation in world politics and security;
- Changing the focus of world politics to non-Western countries and the dynamics of US-China relations.

According to recent years' experience, one cannot rule out the emergence of black swans of various etiologies (from epidemiological or natural-climatic, like the earthquake in Turkey, to military-political, like the attack on Israel). There are also gray rhinos in store (the risk of escalation of regional conflicts in Asia, especially around Taiwan, is most often mentioned). All this can seriously affect national and global security agendas in 2024. The same categories include poorly or not at all controlled techniques and technologies – from information warfare to artificial intelligence, the use of which causes unpredictable or, on the contrary, deliberate consequences. Perhaps, it is with them that the shocks and excesses of 2024 in world politics and security will be connected.

The geography of war, conflict, and post- or pre-conflict situations in 2024 encompasses Eastern Europe, the South Caucasus, the Middle East, Africa, Pacific Asia and Latin America. This picture obviously differs from the Arc of instability of the turn of the century and breaks peaceful pragmatic trends of recent years (in the Middle East) or decades (in Europe). In other words, the spread of conflicts is gaining a global character.

The ongoing Ukrainian conflict will have an impact on the situation in the socio-economic, energy, foreign policy, military-political and military-technical spheres not only in Europe, but also in the world as a whole. The trends towards securitization of domestic and foreign policy processes and militarization of world politics outlined in the IMEMO-2023 forecast have been confirmed and further developed. Germany, Poland, the Czech Republic, and a number of other European states have revised their military doctrines, and Russia has been put on the top of the list of military threats. For example, in Germany, in November 2023, the Minister of Defense announced new (previous in 2011) Defense Policy Guidelines (Verteidigungspolitische Richtlinien 2023 (VPR)). It envisions deployment of a brigade in Lithuania on a permanent basis. The document emphasizes that "forward deployment will become the norm for the Bundeswehr". The Bundeswehr itself is seen as a "conventional pillar of Europe's collective defense," and Germany's goals are to serve as a framework country for smaller European armed forces and to strengthen its position as a central logistical hub for allied military operations in continental Europe. The document indicates a fundamental change in military-political approaches, which, as German experts note, will require a profound rethinking of the postwar German strategic culture, that is, shifts in the consciousness of society and political elites.

Active military action in Ukraine, and by the end of 2023 in the Middle East as well, has put the issue of resuming and expanding arms production at the top of the political, financial and economic planning of the world's leading powers. The dynamics of the conflicts in 2024 – their continuation



or settlement – may have a significant impact on the development of the military-technical sphere in the medium and long term.

The elevated conflict setting in 2023 served as a trigger for a one-day war in the South Caucasus and the transition of Nagorno-Karabakh to Azerbaijani sovereignty, a Hamas attack on Israel and its military response.

Fears of the Middle East conflict escalating into a major regional conflict in 2024 are not likely to be justified. However, the resolution of this conflict, which implies the elaboration and acceptance by the parties, as well as by regional and extra-regional players, of a new status for the Gaza Strip and its population, will be one of the key issues on the global and Middle East security agenda in 2024. The positioning of the Middle Eastern states during the negotiations in 2024 will make it possible to more accurately assess the options for the development of the situation in the region. In the conditionally first scenario, the trends towards pragmatism, negotiability in relations with neighbors and independence in foreign policy that have emerged in the Middle East in recent years will strengthen. The second scenario will lead to increased tension, activation of non-state actors, and the need for intervention by the world's leading powers. According to Western experts, "the struggle for Middle Eastern geopolitics" has begun in the region. A landmark event in 2024 may be the resumption of the treaty process between Israel and Saudi Arabia, which was interrupted by the conflict.

The experts' forecasts are instead optimistic. They are based on an assessment of the regional processes prior to the October 7 outburst. At their core is the position of strong leaders in the region who share the vision that de-escalation and economic development, and thus dispute resolution, are in their interests, as exemplified by the UAE's "zero problems" foreign policy. Economic stability and attraction of foreign and regional investment will remain as imperatives of the foreign policy of the states in the region. Even Iran, despite its bellicose rhetoric, refrains from direct participation in the conflict as disadvantageous both externally and internally, considering the protest moods among the youth.

At the same time, the United States' attempts to mediate the Middle East crisis and restore the traditional role of a regional power broker, being simultaneously engaged in solving problems with China, NATO, supporting Ukraine and the approaching elections, are assessed rather skeptically in the USA and in the West as a whole. That makes the regional powers in the Middle East, whether they want it or not, as *The Economist* emphasizes, responsible for the policies in the region and for the future of the Palestinians. In confirmation of this scenario, already on December 8, 2023, Turkish Foreign Minister H. Fidan presented to the permanent members of the UN Security Council an 11-point plan for the peaceful settlement of the Palestinian-Israeli conflict, developed by the Contact Group of the Organization of Islamic Cooperation (OIC) and the League of Arab States (LAS).

Tensions around Taiwan are likely to peak in January 2024, during the election period. At the end of 2023, the risk of conflict emerged in Latin America. There, President N. Maduro, who faces elections in 2024, held a referendum on the accession of Essequibo, an oil-rich region of Guyana, to Venezuela. The territorial status of the region as part of Guyana was determined by an arbitration court decision in Paris back in 1899 when Guyana was a British colony.

The high conflict intensity in the world is caused by both objective and subjective reasons. The first are overwhelmingly related to insufficient accuracy, lack of legitimacy and/or allowing double interpretations of the decisions taken earlier regarding the borders and sovereignty of territories and states. Russia partly interprets its position in the Ukrainian conflict as an expression of protest against the violation of the agreements and rights of the Russian Federation in the security sphere by the West. At the same time, the general conflict background and the preoccupation of world leaders with several hot conflicts create a general "rarefied/defocused atmosphere" and are perceived as a kind of signal for action: de facto restoration of "justice", as in the case of Nagorno-Karabakh, or an armed attack by Hamas on Israel.

The resolution of problems that have been accumulating for years or decades will require a preliminary ceasefire, which is achievable within 2024, and multilateral efforts of states and international institutions. However, creating new sustainable formats for peaceful coexistence at the regional and global levels is likely to take many years and, in parallel, will require profound reform of institutions and systems that have demonstrated weakness and inadequacy.

Subjective reasons are based on both socio-economic crisis phenomena and the elections mentioned above among the key factors of 2024: in 2024 alone, there will be 70 election campaigns, in which 4.2 billion people, more than half of the world's population, will be involved. Linking the electoral agendas of candidates/political parties to their positions on conflicts will be reflected in conflict dynamics and conflict resolution, as well as in the course of election campaigns. The key event in 2024 in this regard will be the elections in the United States. The Ukrainian and Middle East conflicts are, in a sense, hostages of the American internal political struggle. In the case of Ukraine, it can be assumed that Washington will make every effort in 2024 to avoid a defeat for Kyiv, which would be a failure for the Biden Administration and the USA as a leading global actor in general, especially after the retreat from Afghanistan. And resolving the Middle East knot will require multiple multilateral negotiations, probably extending beyond 2024.

Due to the synergy of the acute conflict background in the world and multiple electoral campaigns, especially in the US, Europe, and India, socio-political tensions are likely to increase in 2024. IMEMO-2023 forecast noted that during the previous year and a half, the Ukrainian conflict and the fear of the threat of war in Europe had rather reduced and "muted" domestic political disputes in the Western countries; increased the consolidation of societies; restored transatlantic ties and strengthened US leadership. By the end of 2023 – beginning of 2024, there were noticeable shifts in public sentiment. Along with the understanding of the need to support Ukraine, European countries have developed "fatigue" with the problems associated with the conflict. Dissatisfaction with high food and energy inflation and migration is reflected in public opinion polls and exacerbates internal political divisions, which is especially felt in the context of elections. The exception is Great Britain, where public support for Ukraine has not decreased. In the upcoming elections, this issue will not cause controversy there, and in general, against this background, for the first time since Brexit, the country again felt being "part of Europe".

However, the degree of tension in Western societies rose sharply when the Ukrainian conflict, the context of which, despite the "fatigue", is still unambiguously assessed by Europeans and Americans, was overlaid with the Middle East conflict. Western European and American leaders and elites faced an almost insoluble dilemma: the countries experienced massive pro-Palestinian and pro-Israeli protests, incidents involving not only tens of thousands of migrant descendants but

also university youths. The protests do not fit into traditional party matrices and left-right preferences and values. At the same time, the struggle for the minds and votes of the younger generation is becoming a very important factor in the internal political struggle in the "aging" Europe.

The presence of significant Muslim communities in the context of the still ongoing military operation in the Gaza Strip is forcing the authorities of leading European countries, such as France, to adjust their stance on the conflict. The problem will become more acute in 2024, when the peace process and the search for a new format of relations between Israel and the Palestinian territories will begin. The forecast of political dynamics in Europe, taking into account the internal political constraints in the EU member states, which intensify during the election period, also points to a more likely scenario in which the European leaders will try to delegate a significant share of responsibility for the decisions taken, and, most importantly, their implementation, to the Middle Eastern states.

At the same time, 2024 may see a shift in the domestic political and institutional landscape in the West. The elections to the European Parliament will be of particular importance. Against the crisis backdrop of conflicts with unclear prospects for resolution and an equally unpredictable presidential campaign in the United States, the situation in Europe seems less dramatic. However, 2024 may turn out to be decisive for the future fate of the European Union as a supporting structure of the European economy, politics and security. In the course of the European Parliament election campaign, among other topics, the issues of further EU enlargement, of the EU's strategic autonomy, and of migration policy are being hotly debated. The leading EU member states are seriously considering the option of abandoning the consensus voting procedure and switching to qualified majority voting. That, on the one hand, will provide more effective decision-making, in particular on aid to Ukraine, which is not supported by some EU members (Hungary, Slovakia), but, on the other hand, will violate the fundamental democratic principles of the EU. At the same time, the Ukrainian conflict is highly likely to remain a consolidating framework for the EU in 2024. However, the conflict in the Middle East, due to the presence of large Muslim communities in European states and different interests and partnerships of EU countries with states in the Middle East and North Africa (MENA) region, could become a barrier to developing a unified EU strategy in the region.

Special attention to MENA and the Global South, which was clearly identified as a trend in 2022 and, especially, in 2023, is likely to develop in 2024. A series of visits and meetings of leaders of the West, Russia (including the Russia-Africa summit in 2023), and China with the heads of non-Western states indicates a change of focus and priorities in international relations. And the Ukrainian crisis served only as a trigger, an additional stimulus for the acceleration and deepening of this trend aimed at finding new partners – at this stage mainly in the political and security spheres, as in recent years in economies of African and Middle Eastern states China's positions have strengthened.

Non-alignment, pursuing self-interest-oriented foreign policy and not joining military-political coalitions remains a distinctive feature for this group of states, where the majority of the global population lives. This is especially important in the context of increased conflict levels. The current refocusing on the African continent, "to the South" is partly caused by the fact that the "turn to the East" has mostly already taken place; the realistic, feasible at this stage formats, limitations and

contradictions in the rapprochement with the states of Pacific Asia, primarily China and India, strictly speaking, also belonging to the Global South, have become clear. Now it is Africa's turn. The "turn to the South" can also be regarded as a factor of the incipient reshaping of the world order.

The trend is probably based, among other things, on the Western actors' understanding of the need for greater cooperation with African and Middle Eastern states as a prerequisite for successful competition/confrontation with China and Russia. Thus, the North-South axis is becoming one of the key factors in the formation of a new West-East balance. For China, with its large-scale investments in Africa, presence there is a natural manifestation of growing economic and foreign policy might.

At the current stage, Russia's activity in the Global South and the Middle East not only helps overcome isolation, as demonstrated by the visits of the Russian leadership during 2023, but also creates additional opportunities to strengthen its foreign policy and trade and economic positions in the Non-Aligned States. A factor contributing to the promotion of the Russian position is the post-colonial past of African states, their distrust of former metropolises and a high degree of anti-Americanism, as evidenced by multiple opinion polls. It is mistrust of the West and anti-Americanism that to a large extent determines the position of many African states on the most important topical political and economic issues as "different from the West". This is also evidenced by the votes in the UN General Assembly in 2023 on issues related to the Ukrainian conflict.

The special attention of the world powers to Africa, as well as the probable active participation of MENA states in the settlement of the Middle East conflict, will result in the strengthening of the process of re-nationalization in foreign policy and the increasing role of regional players, as noted in IMEMO forecasts.

Against the backdrop of uncertain prospects for resolving the Ukrainian crisis and the problems that may arise in connection with the search for a peaceful and sustainable solution to the Middle East conflict, the importance of the military component in international relations in 2024 will remain, and possibly increase.

**PART II**  
**ECONOMY**



## **RUSSIAN ECONOMY: OVERCOMING SANCTIONS**

In 2023, Russian economy showed signs of successful short-term adaptation to unprecedented sanctions challenges caused by a sharp increase in geopolitical contradictions with the leading economically developed countries. The key factors that made achieving such a result possible were the progressive reorientation of foreign trade flows in favor of neutral and friendly countries, the expansion of domestic demand due to increased government spending, as well as a sufficiently balanced macroeconomic policy that allowed to avoid destabilization of the national economy in the context of severe external pressure.

Throughout the year, both Russian regulators and leading international economic organizations steadily raised their forecasts for the development of the Russian economy. While in January 2023 the IMF forecasted Russia's GDP growth at 0.3% of GDP, in July the forecast was raised to 1.5%, and in October to 2.2%. Actual GDP growth in the first half of 2023, according to Rosstat, amounted to 1.6%, and in the 3rd quarter it accelerated to 5.5% year-on-year. At the same time, the volume of output in the manufacturing industry in January-September increased by 7.1%, including production of electrical equipment – by 22.2%, finished metal products – by 30.0%, computers, electronic and optical products – by 34.5%. Despite the forced reorientation of some government expenditures and production capacities to serve defense and security priorities, the household sector also experienced positive effects of the economic recovery. In the first three quarters of 2023, real disposable household income increased by 4.8% (including real wages – by 7.5%), retail trade volume increased by 4.7%, and paid services to the population – by 4.2%. Output of the food industry, primarily focused on consumer demand, increased by 6.5%, and apparel production increased by 6.0%. In general, it can be stated that government expenditures aimed at achieving defense and security objectives had a standard Keynesian stimulating effect on the general indicators of economic activity in a wide range of industries and productions during the year, while flexible reorientation of the country's foreign trade relations ensured the inflow of both financial and commodity-material resources required for development in the conditions of external sanctions.

According to the data on the structure of the country's foreign trade, which after a long break were published by the Federal Customs Service of the Russian Federation in November 2023, the reorientation of the country's trade flows from the European to the Asian direction continued during the year. If in January-September 2022 the share of Russian exports directed to European countries amounted to 48.3%, in the same period of 2023 it fell to 20.6%. On the contrary, the share of Asian countries increased from 45.8% to 71.5% (for African countries there was an increase from 2.2% to 4.9%, for the countries of the American continent – a decline from 3.6% to 2.9%). At the same time, in absolute terms, export indicators showed a decline: thus, the total volume of exports for the period under review decreased by 29.4%, exports of mineral products – by 36.3%. When interpreting these data, however, it should be taken into account that the indicators for 2022 had abnormally high levels due to the explosive growth of commodity prices in the context of geopolitical tension. Compared to the figures of 2021, the decline in total exports in January-September 2023 amounted to only 7.5%, while exports of mineral products grew by 1.4% (which, in particular, is evidence of the failure of the attempts initiated by the G7 countries to introduce a price ceiling on Russian energy carriers). As for imports, in the first three quarters of 2023 they increased by 18.3%, including imports of machinery, equipment and vehicles – by 32.8%. As in the case of exports, there was an active reorientation of trade flows from Europe to Asia: the share of

the former decreased from 36.0% to 27.7%, the share of the latter increased from 55.6% to 65.5%. In fact, the expansion of trade relations with Asian countries provides the Russian Federation with both substitution of Western export markets (primarily for raw materials) and alternative channels of access to imports of manufacturing products (including through intermediary trade channels, legitimate under WTO rules, but not satisfactory to the initiators of unilateral sanctions).

In the context of ensuring macroeconomic stability, the key issues were related to maintaining acceptable fiscal deficit and consumer inflation rates. With regard to the first issue, known concerns were related to the significant excess of public expenditures over revenues in the first months of 2023. This phenomenon, however, was primarily caused by the fact that in 2023 the program of execution of public expenditures began to be actually implemented directly from January-February (and not with a significant delay, as in previous years), which is an undoubtedly positive innovation. In the following months, the dynamics of the budget deficit normalized and reached the planned level of no more than 2% by the end of the year, which allows the Ministry of Finance to forecast a budget deficit of no more than 1% of GDP for 2024-2026. This is a more than acceptable indicator for a country facing the need to expand defense and security spending while losing its traditional export markets.

In the sphere of combating inflationary trends, the situation was more tense during the year. Although in January-October 2023 the growth rate of consumer prices was almost two times lower than a year earlier (5.5% vs. 10.7%, respectively), this result was largely achieved through tight monetary policy measures having a restraining effect on the prospects of economic activity expansion. By November 2023, the Central Bank of the Russian Federation raised its key rate to 15%, which caused serious concerns among a significant part of the country's business community regarding the availability of credit resources for the investment projects implementation. Taking into account the fact that if the key rate remains at 15%, the CBR forecasts annual inflation rates of about 7.0-7.5% with the target level of 4%, another key rate increase may appear on the agenda in the coming months with predictably negative consequences for the development of the real sector of the economy. Under these conditions, the first priority is to balance the goals of maintaining macroeconomic stability, on the one hand, and production growth at the level of industries and companies, on the other hand.

Along with the problems associated with the CBR policy, the main risk factors for the Russian economy in 2024 are as follows.

- 1) Increased pressure from unfriendly countries on states and companies interested in continuing and developing economic cooperation with the Russian Federation. The toughening of the secondary sanctions regime, creation of increasingly sophisticated mechanisms for controlling and monitoring potentially under-sanctioned transactions involving third-country companies, as well as the active use of foreign policy channels to influence the positions of countries friendly and neutral to Russia, requires an adequate response from the Russian diplomacy in order to maintain the ability to effectively carry out foreign economic activities.

- 2) The shrinking circle of countries currently available for a constructive foreign economic cooperation raises the question regarding the prospects for long-term adaptation of the Russian economy to the sanctions pressure in the investment and technological sphere. In contrast to the foreign trade sphere, where the switching of commodity supplies to the countries of the Asian continent was quite dynamic, the replacement of economically developed countries as suppliers of



investment and technology is much more problematic. Under these conditions, it is necessary to develop a well-thought-out strategy of interaction with friendly and neutral countries in order to maximize the opportunities connected with the use of their potential in these areas.

3) Growing shortage of personnel in the real sector of the economy due to both the expansion of aggregate demand and the redistribution of part of the workforce from productive industries to the defense and security sector. Assessing the scale of the problem and finding ways to address it is likely to become an important object of economic discussions in 2024. Although the total number of unemployed in January-September 2023 was 28.3% lower year-on-year, the total number of unemployed as of September 2023 was 2.3 million. The nature of the actual involvement of the relevant persons in economic activity, the possibilities of providing productive employment to truly unemployed people, as well as the identification of other opportunities to meet the economy's needs in human resources should become a focus for close partner consideration by government regulatory structures and private business companies.

## WORLD ECONOMY AMID GEOPOLITICAL TURBULENCE

The global economy almost fully rebounded from the impact of the COVID-19 pandemic in 2023. Nonetheless, local disease outbreaks might be possible in 2024 as well. However, they will not significantly affect the global economy.

In 2024, global economic growth will be mainly affected by such geopolitical factors as the Ukrainian crisis, and the war in the Middle East. Geopolitical tensions might also arise in Latin America or Indo-Pacific Asia. Nonetheless, we estimate that world GDP growth rate will be rather high, reaching 3.3% (according to our forecast, the world economy is projected to grow by 3.3% in 2023 as well).

In 2023, the world economy has almost completely overcome the consequences of the COVID-19 pandemic. However, even in 2024, localized outbreaks of certain types of infections are not excluded, but they will not have a significant impact on the economy.

In 2024, geopolitical factors such as the Ukrainian crisis and the war in the Middle East will have the greatest negative impact on global economic development. The emergence of other points of tension cannot be ruled out: Latin America, the Indo-Pacific region. Nevertheless, according to our estimates, economic growth will be at a fairly high level of 3.3% (in 2023, according to our forecast, the world economy will also grow by 3.3%).

**Table 3. GDP growth rates, %**

	IMF forecast		IMEMO forecast	
	2023	2024	2023	2024
World	3.0	2.9	3.3	3.3
Developed countries	1.5	1.4	1.6	1.7
USA	2.1	1.5	2.5	2.5
Japan	2.0	1.0	1.7	2.0
UK	0.5	0.6	0.6	1.2
EU	0.7	1.5	0.6	1.3
Euro area	0.7	1.2	0.6	1.2
Germany	-0.5	0.9	-0.4	0.8
France	1.0	1.3	1.0	1.2
Italy	0.7	0.7	0.7	0.8
Emerging market and developing economies	4.0	4.0	4.2	4.2
China	5.0	4.2	5.1	4.5
India	6.3	6.3	6.8	6.8
Brazil	3.1	1.5	3.3	3.0
Russia	2.2	1.1	2.5	2.7

Source: IMF WEO Database, IMEMO RAS.

The main risk factors of the global economy development are: inflation, energy and Sino-US contradictions. Consumer price growth in the USA and European countries started as early as 2021. The impact of the pandemic, government restrictions, supply chain disruption and quantitative easing were the main drivers of growth. Subsequently, geopolitical factors pushed up food and energy prices. In most developing and emerging markets, inflation is a constant companion of

economic development. While the average annual rate of consumer prices in developed countries rose to 7.3% in 2022, in developing and emerging market economies – to 9.8%. To combat inflation, central banks in developed countries began rapidly raising interest rates, which by the end of 2023 reached their highest levels in decades. In the US, the Fed raised rates from 0-0.25% to 5.25-5.5%, the ECB – from 0-0.5% to 4.5%, and the Bank of England – from 0.1% to 5.25%. Anti-inflationary measures led to a decline in inflation, which peaked in the United States in June and in the rest of the advanced economies in the fall of 2022. In the United States, the consumer price index in November 2023 fell to 3.1% from a peak of 9.1%, in the United Kingdom to 4.7% from 11%, and in the Euro area to 6.6% from 8.9%. With such a decrease in inflation, central banks took a pause at the end of 2023 to avoid their economies sliding into recession. According to our estimates, in the USA the 2% consumer price target may be reached at the end of 2024, while in the rest of the developed countries this target will be postponed to subsequent years. According to IMF estimates, the average annual increase in consumer prices in 2024 will be 3.0% in developed countries and 7.8% in developing and emerging market economies. Thus, it is likely that in 2024 central banks will keep interest rates at a rather high level, which will naturally hamper economic growth.

Nevertheless, according to our forecast, the world economy will grow by 3.3% in 2024. All pro and contra factors will have roughly the same quantitative impact, and growth will be the same as in 2023 – 3.3%, based on our forecast. This forecast differs from the IMF forecast, according to which the world economy will grow by 3.0% in 2023 and 2.9% in 2024.

The US economy in 2024 will grow at the same rate as in 2023, 2.5%. The recession expected in 2023 never materialized, and we forecast a very low probability of a recession in 2024. An indicator on which such forecasts are based is the inversion of 10-year and 2-year Treasury bond yields. Indeed, in previous years such an inversion preceded recession. However, at present there is an inversion, and the recession is still not coming. The yield differential has been negative since April 2022, exceeded 1% in March and June 2023, and in December 2023 it already decreased to 0.48%. The US economy expanded during 2023 at an 1.7%, 2.4%, and 3.0% growth rate compared to the corresponding quarters of the previous year. Inflation fell to 3.1% on an annual rate in November, unemployment remains at a historically low rate of 3.7%, and the Fed has likely stopped raising the interest rate. A number of other indicators, such as new job openings, availability of job openings at the level exceeding the number of the unemployed by one and a half times, growth in industrial production, including growth in military orders, growth in energy production and exports, etc., allows us to forecast the US economy to grow at 2.5% in 2023, which is a minimum estimate, while the IMF estimates it at 2.1%. We believe these trends will continue into 2024, and our forecast for US economic growth follows from this. This growth according to the IMF forecast will be only 1.5% in 2024.

China's economy will grow by 5.1% in 2023 despite domestic problems, primarily with the real estate market, declining foreign investment, and probable trade restrictions with the US and the EU. The continuation of these trends, especially the problems in the global market, will lead to a lower growth rate in 2024 of 4.5%. The IMF estimates a more significant decline in China's GDP growth rate of 4.2%. As a result, the growth of imports to China, primarily energy resources, will decrease. During two months (October-November) of 2023, China experienced a decline in prices – deflation. If this trend continues, the IMF forecast may turn out overly optimistic – the slowdown in China's economy may prove more significant. We believe that at this stage China will manage to avoid such

a threat, and China's GDP growth will be closer to our forecast. However, the onset of deflation is quite real, and this threat will constantly loom over the Chinese economy in the coming years.

India's economy will grow at an annual rate close to 7%. For 2024, our forecast is 6.8%, which is significantly higher than the IMF's forecast of 6.3%. India is becoming one of the centers for attracting foreign capital and, combined with adequate economic policies of the government, this has created a peculiar Indian model of reproduction that ensures high growth rates.

The growth of food production and some improvement of its distribution system, including food aid, will lead to further reduction of prices. The food price index reached its maximum value in March 2022 – 159.7 (2014-2016=100); in November 2023, it decreased to 120.4. If there is no aggravation of the geopolitical situation, the price index is likely to continue its decline. This is an important factor in slowing down inflation in the world and maintaining the growth of the global economy.

The energy markets situation is described in detail in the relevant section. In our view, the global oil market is about to undergo a major change. The role of OPEC and OPEC+ in determining production and export volumes and, consequently, the impact on prices is coming to an end. Demand for oil in 2024 will not increase as much as experts expected, judging by the publications of forecasts throughout the year. Developed countries have practically stabilized oil demand, China has reduced its import needs, which will lead to an increase in global demand by less than 1 million barrels per day. Production in non-cartel countries is growing steadily. The excess of supply over demand at the end of 2023 was estimated at 1.0-1.5 mb/d. Thus, OPEC+ countries will have to continue cutting production to achieve a balance in the market. Considering how difficult it was to reach the last agreement on production cuts on November 30, one can conclude that proposals for further cuts will be met with the strongest opposition. A number of countries have already been excluded from production cut agreements. Countries such as Brazil, Venezuela, Iran and Libya may see production growth in 2024, which will make it even more difficult to balance supply and demand. As a result, contrary to the forecasts about the price level of \$80-95 per barrel, it may well turn out to be significantly lower. This price movement will be facilitated by the continued growth of oil production in the United States.

The situation with the peak of global oil demand may become clear in the next few years. Demand may continue to grow in some countries, but globally it will first stabilize and then begin to decline. In this situation, the cartel will find itself in a difficult position. Either it will continue to reduce production, which is unlikely, or price competition will start for maintaining market share. Producers with higher costs will be squeezed out of the market, and prices will decline.

The situation in the gas market is similar. LNG production and exports are growing; consumption is not growing as fast as it was forecasted at the beginning of the year. Gas consumption in Europe has decreased and is stabilizing at a maximum of 330 bcm. Among other countries, China remains the largest importer. We forecast maximum gas prices in Europe to be ±\$300 per 1000 cm, while in the US they will be at ±\$120 per 1000 cm.

Such developments in the energy markets are a factor that, in our assessment, will support global economic growth.

### ***World trade***

The growth rate of international trade in goods, which amounted to 8.6% during the period of

recovery growth in 2021, decreased to 2.3% in 2022 and is likely to fall to 1.1% in 2023. At the same time, the coefficient of elasticity of world trade by GDP (the ratio of the growth rate of trade to output) decreased from 1.4 in 2021 to 0.7 in 2022 and is likely to fall to about 0.4 in 2023.

Global trade and production growth are expected to accelerate in 2024, with trade growing faster, and the coefficient of the elasticity of world trade by GDP rising to 1.2. Trade in services, which has shown accelerated growth since the end of the pandemic, will continue to grow faster than trade in goods. However, as the recovery effect fades, the gap will narrow and the growth of trade in services will also slow down.

The main factors determining the development of world trade in the short term will have a restraining effect. First of all, this refers to the general economic situation, characterized by a slowdown in output growth with persistently high inflation, which is partly a legacy of the pandemic and largely the result of geopolitical turmoil. At the same time, the bias towards tightening central bank policies to fight inflation is hampering the recovery of aggregate demand and, consequently, of production and trade.

The near-term prospects for the development of world trade will largely depend on the state of the PRC economy, which is currently showing some signs of slowdown and instability. Obviously, the situation in the economy of the country that ranks first in world exports will attract the closest attention in the forecast period.

In 2024, global trade will continue to be negatively affected by political and economic contradictions between countries, reflected in the growing use of trade-restrictive measures. Escalation of geopolitical tensions may reinforce the trend of reconfiguration of global value chains (GVCs) that emerged during the pandemic period.

At the same time, while fears of a new outbreak of infection fuel the idea of reducing the distance of the GVCs, the possibility of new geopolitical conflicts makes the organizers of the GVCs limit the range of participants to partners from friendly countries. The reformatting of the GVCs, in turn, will entail, as it can be assumed, a temporary increase in transaction and logistics costs, as well as a reduction in trade volumes in the relevant directions.

At the same time, it should be taken into account that changes in the structure of the GVCs have not yet become widespread and there is no reason to believe that they will noticeably intensify in 2024. Moreover, some studies question the very idea that, during a pandemic, stability of flows within transnational networks can be ensured by reducing the geographical extent of supply. The available data on the dynamics of international trade turnover do not give grounds for assuming the onset of a period of de-globalization. In the coming years, the growth of world trade will continue to outpace that of GDP.

Nevertheless, the possibility of new global shocks cannot be ruled out, whereby both epidemics and geopolitical issues could again cause supply gaps not only in GVCs but also in commodity and food trade. In this case, a new rise in prices for agricultural and extractive products becomes probable. The subsequent rise in production costs and accelerating inflation can worsen the situation in the economies of consumer countries, which, in turn, can lead to a slowdown in global trade growth.

Finally, the stable development of international trade remains threatened by the fragile state of the banking sector and public finances, as well as the aggravation of the global debt problem.

Growth in global trade may be supported by an improvement in the general economic situation and a change from the current trend of tighter financing conditions to a trend towards their easing. The possibility of such a turnaround in monetary policy will depend on the success in combating inflation and the need of the leading economies to stimulate consumer and investment demand. The most beneficial effect on the development of world trade would be achieved by overcoming the confrontation in political and economic relations between the leading countries and the transition to joint work on the renewal of the leading international economic organizations.

In these difficult circumstances, the need to overcome the crisis that has plagued the multilateral trading system in recent years has become increasingly urgent. The most acute problem today is the paralysis of the WTO dispute settlement system. To overcome it, it is necessary, first of all, to resume the work of the Appellate Body, which may be realized in 2024.

Reforming the WTO is a more ambitious goal which has been the subject of ongoing discussions for many years. Reform proposals were summarized at the 12th WTO Ministerial Conference held in June 2023. The WTO General Council is to prepare a relevant draft by the next Ministerial Conference scheduled for February 2024. Thus, 2024 may become a turning point for the evolution of the WTO. Successfully reforming the organization will largely determine both short-term and long-term outlook of world trade development.

## GLOBAL FINANCIAL SYSTEM

General expectations for the next year, 2024 – more predictability compared to the previous year. This is due to the fact that it is now difficult to design any new sanctions in addition to those imposed on Russia in 2022-2023. Therefore, it seems that next year the global monetary and financial system will be influenced by the consequences of the events that took place in 2022-2023.

As a result, the following impact factors have emerged by now: a) breakout of inflation in developed countries has stopped at appreciable levels, but has not reached the threatening levels of the 1970s.; b) lockdowns in China due to coronavirus outbreaks have stopped, but economic growth in China in 2023 has not reached pre-crisis levels and, as a consequence, is creating a chilling effect on global demand; c) In the last two years, the central banks of developed countries (except Japan), which have been raising interest rates at a record pace as a measure to fight inflation, are now working out an algorithm of transition to lower rates to prevent their economies from sliding into recession.; d) some new measures by the US and its allies against Russia are likely to be taken, but their impact is unlikely to exceed the scale of measures already introduced.

**Currencies.** The US dollar is still at the center of the global financial system. At the same time, in the current year, as a result of rate increases by leading central banks, fluctuations in the exchange rates of major currencies against the US dollar did not demonstrate any anomaly. So the single European currency returned most of the losses of the last year and at the end of 2023 was at the level of \$1.06 per euro, the pound sterling almost returned to the "pre-Ukrainian" levels rising to \$1.29 per pound. The Japanese yen repeated the dynamics of the previous year – strengthening in the first half of the year and noticeably weakening by the end of the year. Further behavior of the rates of major reserve currencies will depend on what interest rate policy will be followed by the leading central banks.

If the US Fed moves to a rate reduction phase, the dollar will mostly weaken against other currencies. In such a scenario, the euro would probably fluctuate against the US currency in the range of \$1.15-1.3, and the pound sterling in the range of \$1.25-1.35. In such a scenario, the yen is likely to strengthen to ¥120-125 per dollar in the first half of the year, but the Japanese Central Bank is likely to take measures to weaken the national currency to ¥140-145 per US dollar.

The most probable in the dynamics of the Chinese renminbi is the repetition of its behavior in 2023, when it strengthened slightly at the beginning of the year, and weakened slightly in the second half of the year. Against other currencies, the RMB exchange rate will symmetrically reflect the dynamics of their exchange rates against the US dollar. As usual, currencies of developing countries will be characterized by increased volatility, which next year will also depend on the nature of measures taken by the USA and its allies to prevent these countries from circumventing anti-Russian sanctions.

Thus, unless the USA and its allies take some unpredictable sanctions measures, no serious threats to the dollar's dominance are expected in 2024. However, its share in both international reserves and international settlements is likely to slowly decline.

**Inflation.** By the end of 2022, price growth in many developed economies was well ahead of the levels achieved in 2000-2020. By the end of 2023, the leading central banks have managed to significantly reduce inflation, although it remains significantly above target levels. Nevertheless, its decline will continue in 2024. Thus, in the world as a whole, the accumulated during the year by

October 2023, inflation amounted to 6.4%, and forecasted for 2024 – 5.1%, in developed economies – 3.5% and 2.5% respectively (USA – 3.0% and 2.6%, Japan – 2.7% and 2.6%, Germany – 4.1% and 2.8%, France – 4.0% and 1.9%, Great Britain – 5.2% and 2.4%), in developing countries – 8.6% and 6.8% (PRC – 0.9% and 1.9%, India – 4.9% and 4.4%, Brazil – 4.9% and 3.9%, Mexico – 4.5% and 3.2%).<sup>1</sup>

If recession expectations are met in 2024, it will be another factor of inflation reduction.

**Interest Rates.** In 2023, the central banks of developed countries significantly slowed down the pace of prime rate increases. Thus, by November 2023, the US Fed raised the rate from 4.25/4.5 to 5.25/5.5%, the European Central Bank – from 2.5% to 4.5% and the British – from 3.5% to 5.25%. Only the Bank of Japan has maintained a negative rate of -0.1% for a number of years, continuing its ultra-soft monetary policy. In 2024, the leading central banks will be under the pressure of inflation on the one hand, and possible recession on the other hand.

Therefore, it seems most logical that in 2024 the leading central banks, except for Japan, will stop raising rates. But by the end of the year, all central banks will try to reduce rates with a further decline in inflation rates.

**Gold.** Since it seems most likely that the US dollar will weaken slightly next year, and the US and its allies will continue to try to block gold exports from the Russian Federation, there will be some upward pressure on the gold price. At the same time, in the first 9 months of 2023, gold purchases by global central banks totaled 800 tons, which surpassed its purchases in the same period last year by 14%.<sup>2</sup> This additionally indicates the possibility of an upward trend in gold prices next year as well. Therefore, its price in 2024 is likely to fluctuate between \$1,950 and \$2,100.

**Public Debts.** In 2023, the decline in the government debt to GDP ratio observed in most of the world's major economies in the previous two years stopped and, with the exception of the largest Eurozone countries and Japan, government debt began to rise again. The main reason for this was the decline in government budget revenues due to higher inflation combined with increased spending to prevent recession, as well as a significant slowdown in GDP growth in developing countries. The USA and its allies have experienced an additional increase in expenditures due to measures to compensate their citizens and companies for rising gas and electricity prices, as well as increased aid to Ukraine. According to our estimates, a sovereign debt default in major economies is highly unlikely.

In 2024, the ratio of government debt to GDP may increase in the US to 126-129%, in France – to 111-113%, in the UK – to 105-107%, in Germany and Japan it is expected to decrease slightly to 63-64% and 253-254% respectively. In developing economies as a whole, government debt is expected to grow to 69-70%, including in China to 86-88% and in India to 82-83%.

**Equity Markets.** This year, the markets were mainly influenced by two factors: on the one hand, interest rate hikes by leading central banks (except for Japan), and on the other hand, fears of a global recession. As for geopolitical tensions, the markets have probably already recovered this factor last year, so during 2023 the indices on the stock exchanges were more often in the green

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<sup>1</sup> IMF World Economic Outlook Database (October 2023).

<sup>2</sup> World Gold Council (2023). Gold Demand Trends. Available at: <https://www.gold.org/goldhub/research/gold-demand-trends/gold-demand-trends-q3-2023> [Accessed 20/02/24].



zone. Thus, the DJIA rose from 33,136 to 34,112 from the beginning of the year to November 10, the NASDAQ rose from 10,386 to 13,650, and the S&P500 rose from 3,824 to 4,382.

Since expectations for 2024 are quite complex, including the possibility of a transition to a phase of interest rate cuts by leading central banks and the likelihood of a global recession, the equity market dynamics may not show any pronounced trend.

**Risk Concentrations – 2024.** The situation around Ukraine remains the main source of uncertainty. At the same time, one cannot exclude the emergence of additional geopolitical crises (such as Israel's war with Hamas) which may have a negative impact on the global monetary system.

### ***Foreign direct investment***

Statistical indicators continue to point to generally unfavorable global trends in foreign direct investment (FDI), whose role in the world economy, despite temporary upturns, has tended to decline slightly over the past fifteen years.

Table 4. Volume of foreign direct investment flows in the world (trillion dollars)\*

2007	2016	2017	2018	2019	2020	2021	2022
2.1	1.8	1.7	1.2	1.6	0.9	1.8	1.4

\* – the volume of flows, according to OECD statistics, is calculated as the arithmetic average of FDI outflows and inflows during the respective years

Calculated on the basis of OECD FDI database. <https://data.oecd.org/fdi/fdi-flows.htm>

In 2023, general geopolitical tensions in the world, global economic slowdown, economic fragmentation, rising interest rates and uncertainty in financial markets and other factors slow down FDI growth.

The fall in FDI flows, both in nominal terms and in their ratio to GDP, has persisted for many years, while there was a generally upward trend for several decades before 2007.

**Table 5. Ratio of foreign direct investment flows to GDP in the world (%)**

2007	2016	2017	2018	2019	2020	2021	2022
5.3	3.3	2.6	0.5	1.5	0.8	1.9	1.7

Source: IMF, World Economic Outlook (April), 2023, p.92.

However, there are a number of positive countertrends, such as the favorable dynamics of FDI in electronics, automotive and equipment manufacturing. In the short term, it is unlikely that the dynamics of aggregate FDI flows in the world will improve dramatically, but only stabilize at the current level.

## **ECOLOGICAL FACTOR IN THE SYSTEM OF BIG CHALLENGES TO GLOBAL SUSTAINABLE DEVELOPMENT**

Against the backdrop of the current turbulence of the global world order – social, economic and geopolitical instability, or *polycrisis*, as it is qualified in the latest international 2023 Global Risks Report (GRR), major environmental risks will continue to top the Big Challenges on the global agenda. While in the short term their place and role in shaping the international system of action for global sustainable development is likely to remain unchanged, according to the forecasts of leading international experts, during the current decade until 2030, there will be a trend towards their further consolidation. The combination of global and regional trends will be a feature of international environmental governance for the future: currently there are about 250 multilateral environmental agreements in force.

Our ranking of the top eco-challenges showed that among the short-term priorities for multilateral governance are prevention and adaptation to the impacts of global climate change, risks from increasing intensity of natural disasters, loss of biodiversity and the spread of global plastic pollution. International discussions will continue to focus on global climate policy and the search for effective measures for a low-carbon transition (emission reductions and sequestration) and adaptation to the negative impacts of climate change. The current climate discourse increasingly supports the approach that another segment of the international climate regime should be included in this system, namely compensation for damages to vulnerable countries from climate-induced natural disasters. The synergy from the aggregate actions of the global community at various levels is manifested in a rather dynamically developing international climate regime with its 1992 UN Framework Convention on Climate Change and the 2015 Paris Climate Agreement.

However, the failure of the world community to develop an effective system of climate policy and regulatory measures will remain a powerful driver of ongoing changes in natural ecosystems and, accordingly, their increasing negative consequences for society. Aggregated assessment of the latest climate reporting of all 192 parties to the Paris Agreement on the criterion of nationally determined contributions (NDC) to global greenhouse gas emissions indicates that in the short term (by 2025) their global level will be 58.1% above the 1990 baseline values (by 2030 – by 58.7%). According to the Paris Agreement, limiting global warming to 1.5° by the end of the century requires limiting global greenhouse gas emissions by 45% by 2030, and if to 2° – by 30%. However, there is a high probability that such ambitious targets will not be met. The upward trend will continue in the current decade, and will be a serious barrier to meeting the short- and long-term quantitative targets for reducing emissions and preserving the global climate. Similar critical assessments apply to the implementation of climate adaptation projects. Despite a 10% increase in the number of projects launched in 2022, with funding of \$559 million from international funds (Adaptation Fund, Green Climate Fund, Special Climate Change Fund, Global Environment Facility), the reporting results of ongoing projects remain unsatisfactory, as only 6% of projects have successfully reported on targets achieved.

The effectiveness of the current international climate governance system is still low, and the global community is unable to fully implement the objectives of the Paris Agreement. Failures in environmental risk management will be caused, among other things, by the fragmentation of climate action by individual regions and countries in the Global North and South, the lack of clear signals from climate policy, the disorderliness of the actively initiated Climate Transition, the high

diversity of economic and financial instruments used, the lack of financing, the increasing underreporting of emissions by individual actors, and the ineffectiveness of verification and control mechanisms.

Recent assessments of the current international environmental governance system by relevant international organizations agree on its serious drawbacks. Thus, according to UNEP's 2022-2023 conclusion, the current environmental system is proving unable to solve the issues of optimal architecture of response to global challenges, prevent further degradation of ecosystems, block external destabilizing socio-economic factors, and meet specific sustainable development goals of the world by 2030. Such critical assessments are the basis for its next assessment report on the state and protection of nature, GEO-7 (Global Environmental Outlook), which is currently being prepared for release in 2026. And the regular reports on the implementation of global climate policies and measures published recently contain detailed lists of shortcomings and miscalculations in the field of emission reductions and adaptation<sup>3</sup>. A similar position and a rather rigorous approach to assessing global risks are contained in the above-mentioned report, which characterizes the actual state of solving the world's environmental problems as "approaching the point of no return".

A new trend in the development of international interaction between the countries of the Global North and the Global South can now be traced. By the end of 2022, an important phase of the multilateral climate dialogue on liability for damages from natural disasters, which has been ongoing for the past 3 decades, has come to an end. It is indicative that its main results were the outcome of the growing pressure of various groups of developing states to recognize the principles of responsibility and compensation for damages from the negative impacts of climate change and natural disasters to the most vulnerable countries and regions by the West. As a basic approach, they used the argument that the countries that account for the bulk of global greenhouse gas emissions are responsible for climate change and its negative impacts on societies.

As a result, despite prolonged maneuvering by developed countries, a difficult decision was made to institutionalize their interaction – in the field of international financial and technological assistance to reduce climate vulnerability. This is the creation of a global fund for risk prevention, loss and damage from natural disasters covering for the most vulnerable countries (Loss and Damage Fund). The forthcoming development of its design, participants' obligations, sources of financing and technological aid, norms and regulatory procedures in the future may be based, inter alia, on the experience and best practices of the currently operating regional funds and the multilateral Green Climate Fund. However, the lack of consensus among the main participants, uncertainties regarding the sources of funding, as well as approaches and methods of economic assessment of damage and its compensation may slow down the functioning of this mechanism. Many of the administrative and technical aspects have already been discussed in the framework of the Warsaw International Mechanism on loss and damage, which has been operating since 2007, and at regular conferences of the parties to the Climate Convention. Another set of issues was on the agenda of COP28, held (November 30-December 12) in 2023 in Dubai; and work on this track will continue in the future.

In the forecast perspective, regional integration in environmental management is expected to develop further, both within the European Union on specific directions of Sustainable Development and as a result of innovative shifts within a number of regional initiatives of developing countries.

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<sup>3</sup> UNEP (2022). Adaptation Gap Report 2023: Underfinanced. Underprepared; UNEP. Emissions Gap Report 2022.

For example, this includes improving cooperation in the regional network of Central American and Caribbean states (Public Fund for Natural Disaster Risk Reduction, Caribbean Risk Insurance Fund, etc.).

Integration in this area is particularly active in the European region. As a result of recent regional initiatives, it is planned to further develop the already existing infrastructure represented by various structural investment funds within the EU itself, as well as through private projects and initiatives, which are formed, for example, by European Green Bonds. Their primary task is to develop specific mechanisms to compensate for emerging losses, eliminate negative consequences, and, in a broader sense, it is aimed at preventing their occurrence.

There is a trend that the consequences of climate-related natural disasters and environmental emergencies, albeit of a regional technogenic or anthropogenic nature, are becoming increasingly important. The set of measures taken to mitigate and adapt to their impact is expanding and at the same time becoming a basic segment of short- and medium-term strategies, including for financial planning not only for states and regional organizations, but also for transnational corporations.

The latter, in turn, suffer significant economic, reputational and other losses when their programs and policies fail to comply with Sustainable Development measures, or when their marketed products harm the environment. Thus, this involves establishing a regime of compensation for damages and losses at various levels, both internationally, regionally, nationally and, ultimately, at the level of key stakeholders.

## **GREEN FINANCE**

In 2023, despite continuing economic and geopolitical challenges, green finance remains significant on both international and national agendas. The trends of the past years continue to strengthen, among which regulatory measures to disclose non-financial climate and ESG-related information, including to combat so-called greenwashing, are particularly noteworthy. The US Securities and Exchange Commission (SEC) plans to finalize binding guidance on non-financial disclosures for all ESG-related investment products by the end of 2023. In the EU, the Corporate Sustainability Reporting Directive (CSRD) on ESG came into force on January 5, 2023. In July 2023, the first tranche of the CSRD was approved, which requires all large companies registered in the EU, including foreign ones, along with financial reporting, to provide non-financial reporting on environmental and social risks in accordance with the new European Sustainability reporting standards (ESRS). The Directive obliges to start providing the required information in the 2024 reports to be published in 2025. The Standards contain broader and more strict requirements for non-financial information than all the previous ones. These measures are a response to the increased risks and consequent demands from investors, as well as financial institutions themselves, seeking more accurate information about investees. The next step is the harmonization of national and regional standards, which is necessary primarily for large transnational companies operating in several countries. In 2023, the International Sustainability Standard Board, established in 2021 at COP26, issued its own international standards for non-financial reporting, IFRS S1 and S2, which incorporate the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Along with the tightening and harmonization of non-financial reporting standards, the scope of their application is expanding. As a result of the adoption of the Kunming-Montreal Global Biodiversity

Framework at SOR15 in December 2022, the Task Force on Nature-related Financial Disclosure (TNFD) was finalized in 2023, borrowing significantly from the work of the TCFD. In September 2023, TNFD published the final version of its recommendations for risk management for biodiversity and ecosystem conservation, which took into account both global and European standards, as well as the recommendations of the Kunming-Montreal Framework. It also took into account the strong dependence of ecosystems on their location.

In 2023, the volatility of energy markets continued to transform climate finance strategies within the traditional triangle: moving toward carbon neutrality, ensuring energy security, and energy affordability. Institutional investors, on the one hand, considering climate commitments, pursued green finance, and on the other hand, as a result of the 2022 energy crisis, invested in the assets of fossil fuel producing companies. At the same time, the green economy retains its importance, as evidenced by new laws to promote clean energy and energy saving adopted in the USA and EU countries. Meanwhile, new technologies are playing an increasingly important role in the energy transition, and their financing is becoming a priority.

The range of financial instruments used is also expanding. These include so-called offset loans for decarbonization or other environmental purposes to compensate for possible environmental damage caused by the company's activities. It is also blended finance, when financing of private financial institutions or development banks, obtained at the expense of funds raised on the markets, is combined with concessional financing from donors or third parties, which can be, for example, the Global Environment Funds. Another tool that is increasingly being used for developing countries is the reduction of sovereign debt through debt for green swaps, i.e., when a country has the opportunity to reduce its debt and at the same time implement an environmental project. The Belize deal (2021), which also involved the US Development Finance Corporation (DFC) as guarantor and Belize's environmental funds, is considered a model. Due to the DFC guarantees Belize was able to borrow funds on the world market to reduce sovereign debt.

The debt market continues to play an important role in green finance. In the 1st quarter of 2023, the sustainable bond market showed a 17% growth compared to the 4th quarter of 2022, but statistics for the first half of 2023 show a 15% decline compared to the 1st half of 2022<sup>4</sup>. Issuance of all sustainable bonds, including green bonds, totaled \$448 billion, with the share of green bonds increasing from 52% to 62% in the 1st half of 2023. This was due to the fact that their issuance volume remained virtually unchanged compared to the 1st half of 2022. Financial institutions (29%), followed by non-financial corporations (25%) and sovereign borrowers (19%) were the largest green issuers.

The decline in green bond issuance (down 39%) in the US became a distinctive feature of 2023. It can be explained to some extent by tighter reporting standards as well as domestic political disagreements over financing of decarbonization<sup>5</sup>. However, the US dollar continued to be used as the currency of issue by other countries, although the euro remains the leading currency, as does the EU as the main issuer. In the 1st half of 2023, 58% of green bond issuance was for renewable energy financing. According to Bloomberg, the total amount of financing for various sectors of the

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<sup>4</sup> Hereinafter, the statistics are provided by Sustainable Debt Market, Summary HI 2023, CBI August 2023.

<sup>5</sup> As a result of different attitudes towards decarbonization among supporters of the Republican and Democratic parties, the latter have called for withdrawing money from major US banks that lend to oil companies. In turn, Republicans began withdrawing their assets from managing funds that invest in sustainable debt instruments.

economy that use low-carbon energy exceeded the amount of financing for fossil fuel companies in 2023. This, according to the international non-governmental organization CBI (Climate Bond Initiative), shows that financing to support the development of clean energy continues to develop in the new economic environment. At the same time, a downward trend in the market of sustainable, including green, bonds took place in the 3rd quarter of 2023 as well. A significant part of the reduction in issuance fell on sovereign borrowers. In 2024, the volume of green finance is likely to be slightly higher than in 2023.

## **FORECAST OF THE MARKET SITUATION FOR THE MAIN RUSSIAN EXPORT MARKETS**

### **Foodstuffs**

In 2023, the development of global production and trade of agricultural raw materials and processed products was strongly influenced by a number of negative factors – from becoming almost regular extreme climatic events and outbreaks of crop and livestock diseases to periodic fluctuations in the global energy market, the residual effects of the COVID-19 pandemic and the emergence of new "globally dangerous" viruses, as well as the continuation of previous (conflicts in Ukraine and in several regions of Africa) and the occurrence of new (Palestinian-Israeli conflict) military-political confrontations.

This is particularly evident in food-insecure countries and those in need of external food aid. In 2023, food insecurity in 33 countries in Africa was linked directly to weather (in 27% of countries), conflict (18%) or a combination of these factors (15%), and in 9 countries in Asia to weather (in 33% of countries) and conflict (44%). However, negative trends directly (climatic extremes, epiphytotics and epizootics) or indirectly (rising energy costs, regional conflicts) affect the agricultural sector of quite economically developed and food-secure countries. Thus, against the background of weather fluctuations and the conflict, Ukraine's national food security and its contribution to global food security (including for wheat) decreased in 2023.

Annual losses from weather and climate extremes are estimated at a minimum of 5% of global agricultural production and 2023 was no exception. On the contrary, new "records" were set for unfavorable climatic events for agricultural production. Heat waves swept across a number of regions in North America, Europe, the Middle East and North Africa and Asia, including China. Some of them, as well as some regions of Latin America, suffered not only from heat waves, drought and fires, but also from floods and storms. This caused significant damage to national and global food production. In the USA, each of the 24 weather extremes (droughts, floods, storms, cyclones and fires) caused more than \$1 billion in damage during January-October 2023. The Grain Belt states, which significantly affect national and global wheat and corn availability, were severely affected. Delayed monsoon and subsequent heavy rains disrupted rice production in India, which accounts for more than 40% of its global exports. In northern China, the most destructive rains in a decade flooded wheat fields in May, raising serious concerns about domestic and global wheat availability. In the country's east, a typhoon washed away 10,000 hectares of crops in Fujian province in September, causing about \$0.7 billion in damage. Losses from infectious diseases of livestock and poultry are close to 20% of the world's livestock production. Outbreaks of one of the most dangerous of such diseases, avian influenza, were reported in almost 70 countries in early 2023. South Africa, for example, lost about 30% of its poultry population as a result. More than 70% of the world's pig population was in areas affected by another dangerous disease, African swine fever (ASF). In Russia, 14 outbreaks of influenza in the poultry population and 30 outbreaks of ASF were registered in 2023. This is less than in many countries, but has had a negative impact on poultry production in some Russian regions. In 2024, similar trends are likely to continue with increased losses, including in the previously safer in this respect Europe. The negative effect of the agrarian factors was aggravated by the impact of external factors – first of all, the continued instability in the world markets of mineral fertilizers (despite the beginning of the downward price cycle) and energy resources (especially oil). National and global food systems remained

insufficiently resilient and dynamic, and food remained relatively expensive for consumers. In 2023, food price increases exceeded 5% in about 80% of lower-middle-income countries and nearly 60% of upper-middle-income countries. In about 70% of countries, food inflation in real terms outpaced overall inflation. Even in the EU, the average increase in food prices was about 14%, twice as high as the overall trend in consumer prices.

In the 2023/24 agricultural year, some improvement of the situation is possible, including taking into account the medium-term (until about 2026) period of low global fertilizer prices and a certain stabilization (although at a rather high level) of global oil prices. However, the ongoing transformation of regional (e.g., droughts and forest fires in Amazonia, whose rainforests have traditionally been an important global absorber of greenhouse gases) and, in part, global (unfavorable effects of El Niño and La Niña phenomena for the world climate) extreme weather and climate events into almost normal ones, may make adjustments to the generally positive forecasts of the world food situation. In *crop production*, the world wheat harvest is expected to be the second largest in the last 20 years. However, it will be 2.2% below the 2022/2023 record. Reduced wheat production in Australia, Canada, Kazakhstan, Brazil and Egypt will be only partially offset by higher harvests in Argentina, India, the USA and the second-highest ever harvest in Russia. At the same time, world ending stocks of wheat will be close to record highs, including due to a 15 percent increase in stocks in the USA and the second-largest stocks in the history of Russia. Feed grain production is expected to increase by 2.7% to 1,510 million tons, driven by increases in the United States, the European Union, Ukraine and a good harvest in Russia, offsetting declines due to dry weather in Australia and Canada. World rice production will increase by less than 1% to almost 524 million tons, primarily due to weather problems related to El Niño and La Niña. Lower harvests in India, Indonesia and Thailand will be offset by increases in China, the US and some other countries. The upward trend in total oilseed production is expected to continue, with its growth (by 4%) driven by a marked increase in sunflower harvest in Russia, Ukraine and the EU, and soybeans in the USA, Argentina and Brazil, with a slight increase in palm kernel production in Indonesia and Malaysia and a decrease in rapeseed harvest. World sugar production is forecast to decline by 2%, primarily due to expected production declines in India and Thailand (due to negative El Niño effect), not compensated by growth in China and the EU and good results in Brazil and the US. In the *livestock sector*, meat production is expected to increase by less than 1% to 365 million tons in 2023, mainly due to growth in poultry and pork production. China, Brazil and Oceania will be the leaders in meat production growth, partially offsetting declines in Europe, North America and Africa. World milk production is expected to increase by 1.3% to 950 million tons, due to its expected growth primarily in Asia (India and China), Oceania and a number of countries in Europe, North and South America, with a continued decline in Africa. In 2024, world meat production could increase by about 0.7% and milk production by 1.2%.

**Table 6. Global and Russian production and exports of grain, sunflower oil**

	2020/2021	2021/2022	2022/2023	2023/2024
World				
Grain production,	2782.5	2812.1	2793.4	2819.3
including wheat	775.3	778.3	803.1	785.1
Grain exports,	482.2	481.9	476.9	469.2
including wheat	189.4	195.9	200.0	194.4



Sunflower oil production	19.0	19.7	21.5	22.0
Sunflower oil exports	11.3	11.1	13.9	13.8
Russia				
Grain production,	133.5	121.4	157.7	147.0
including wheat	85.9	76.1	104.2	93.0
Grain exports,	49.0	38.1	60.0	65.0
including wheat	39.1	33.0	44.0	49.0
Sunflower oil production	5.1	5.3	5.9	7.0
Sunflower oil exports	3.2	3.2	3.9	4.2
Russia's share (%) in the world:				
Grain production,	4.8	4.3	5.6	5.2
including wheat	11.1	9.8	13.0	12.0
Grain exports,	10.2	7.9	12.6	13.8
including wheat	20.6	16.8	22.0	25.2
Sunflower oil production	26.8	26.9	27.5	31.8
Sunflower oil exports	28.3	28.8	28.1	30.0

*Source: calculated according to UN FAO, US Department of Agriculture, Ministry of Agriculture of the Russian Federation, and sectoral organizations of producers of the Russian Federation, 2023/2024 – forecast<sup>6</sup>*

Global fish and seafood production will actually continue to stagnate. Its growth of about 0.6% in 2023 will be mainly provided by intensification of aquaculture. Marine fisheries are negatively affected by biological and climatic factors, including the El Niño weather effect.

**Table 7. World and Russian meat\* production and export, million tons**

	2021	2022	2023	2024
World				
Meat production,	356.6	362.4	365.2	367.8
including poultry meat	138.3	141.0	142.5	143.9
Meat exports,	42.0	41.8	41.4	41.3
including poultry meat	15.8	16.2	16.3	16.4
Russia				
Meat production,	11.4	11.9	12.6	12.8
including poultry meat	5.2	5.3	5.4	5.5
Meat exports,	0.65	0.68	0.70	0.73
including poultry meat	0.32	0.39	0.44	0.46
Russia's share (%) in the world:				
Meat production,	3.2	3.3	3.4	3.5
including poultry meat	3.7	3.8	3.8	3.8
Meat exports,	1.5	1.6	1.7	1.8
including poultry meat	2.0	2.4	2.7	2.8

<sup>6</sup> FAO. 2023. Food Outlook – Biannual report on global food markets. Food Outlook, November 2023. Rome; Grain: World Markets and Trade / USDA, November 2023; Ministry of Agriculture of the Russian Federation.

*\* Beef, pork and poultry meat (broilers)*

*Source: calculated according to UN FAO, US Department of Agriculture, Ministry of Agriculture of the Russian Federation, and sectoral organizations of producers of the Russian Federation<sup>7</sup>.*

For the Russian agro-industrial complex, the 2023/24 agricultural year is expected to be generally successful. In crop production, the second largest grain harvest in the history of Russia is forecasted – about 147 million tons of grain and 93 million tons of wheat. Corn, sunflower and sugar beet harvests will increase by 4-11%. Sugar production is expected to increase by almost 5% and sunflower oil production by about 15%. This will allow to strengthen the country's positioning in the global production of a number of the most important crop products: wheat – 4th place, barley – 2nd, corn – 10th, sunflower and sunflower oil – 1st, sugar – 7th place.

In the global ending stocks of wheat, the Russian Federation may take 5th place, barley – 7th, rye, sunflower and sunflower oil – 2nd place.

Certain opportunities are also emerging in the *livestock sector*. Despite some problems, pork and poultry production in Russia will continue to grow in 2023-2024. Beef and mutton production will also increase, which will allow the country to maintain its position in the global pork and poultry markets and strengthen its position in Russia's niche, but profitable, mutton market. In the world production of pork and poultry meat, the Russian Federation may take 5th place and approach this position in cheese and butter production.

Russia may move up to 5th place in global pork ending stocks.

*The realization of the export potential of the agro-industrial complex of the Russian Federation will largely depend on global trends in the functioning and pricing in the world agro-food market, ensuring its openness, non-discrimination and predictability, including the removal of restrictions and bans that violate WTO rules, especially Western anti-Russian sanctions. FAO estimates that global agri-food import costs will reach nearly \$2 trillion in 2023. This is partly due to the burdensome level of global agri-food prices for many countries, especially developing countries, despite their downward trend. In 2023, the overall FAO food price index and indices for all basic commodity groups (grains, meat, dairy products, vegetable oils) except sugar were noticeably lower than in 2022. However, they were generally higher than in the previous decade (2012-2021). The situation was exacerbated by high transportation and logistics costs and world trade-distorting barriers. As of November 6, 2023, 19 countries had imposed 27 food export bans and 9 countries had imposed 18 restrictive measures. The politically motivated and WTO rule-violating sanctions imposed in 2022 by the West against Russia after the start of the Ukrainian conflict were severe for the global food economy (especially for import-dependent developing countries). However, in 2023, Russia managed to adapt to the new circumstances to a large extent and increase agro-food exports by value by almost 8.5% to \$45 billion, with the prospect of increasing them to at least \$47 billion in 2024. Taking into account adequate food self-sufficiency (in terms of value, food exports cover imports by 130%) and saturation of the domestic market in most types of foods, Russia in 2024 will maintain or strengthen its leading positions in the world markets of a number of basic products. In the world export it can take the 1st place in wheat, barley and sunflower – 3rd place, corn – 5th place, sunflower oil – 2nd place, pork and poultry meat – 7-8th places. In cheese and*

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<sup>7</sup> FAO. 2023. Food Outlook – Biannual report on global food markets. Food Outlook, November 2023. Rome; Livestock and Poultry: World Markets and Trade / USDA, October 2023; Ministry of Agriculture of the Russian Federation.

butter, it can enter the top ten exporters. The realization of this potential will largely depend on solving problems with transport and logistics, exchange rates and mutual settlements with foreign partners, as well as increasing the predictability and stability of the national customs and non-customs regulation of foreign economic relations.

## Oil and Gas

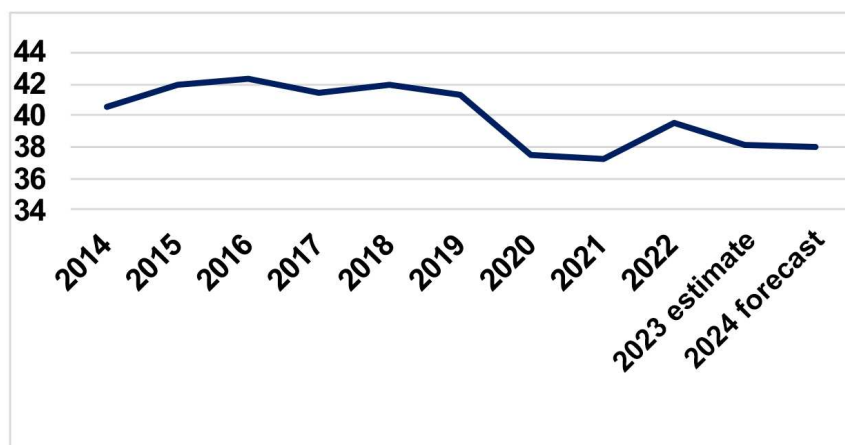
### Oil

The situation in the global oil market is determined mainly by the dynamics of fundamental factors – supply and demand. In 2023, global oil demand, which collapsed during the Coronavirus pandemic, continued to recover. The International Energy Agency (IEA) estimates global oil demand growth of 2.4 million b/d in 2023 and only 0.93 million b/d in 2024. OPEC's forecasts are more optimistic – 2.46 million b/d and 2.25 million b/d respectively – but are likely to be grossly overstated. The US Department of Energy's forecast of global oil demand growth for 2024 is almost identical to the IEA's.

The reduction in absolute demand growth, which will continue beyond 2024, is explained by the transition of the Chinese economy from extensive to intensive economic growth, characterized by a decline in specific consumption of energy resources, as well as the exhaustion of post-COVID recovery options, in particular, global air transportation. All developing countries taken together are unable to give global oil demand the kind of impetus that China generated over the past two to three decades.

On the supply side, the trends that emerged after the shale oil revolution in the US and Saudi Arabia's loss of price competition to US shale producers continue to work. OPEC and OPEC+ countries, whose budgets are critically dependent on oil and gas revenues, have been holding back oil production for the past three years in order to prop up oil prices (Figure 8). In addition to the OPEC+ agreed production cuts, Saudi Arabia has cut production by a further 1 million b/d from July 2023. Russia has also assumed obligations on additional reduction of oil exports.

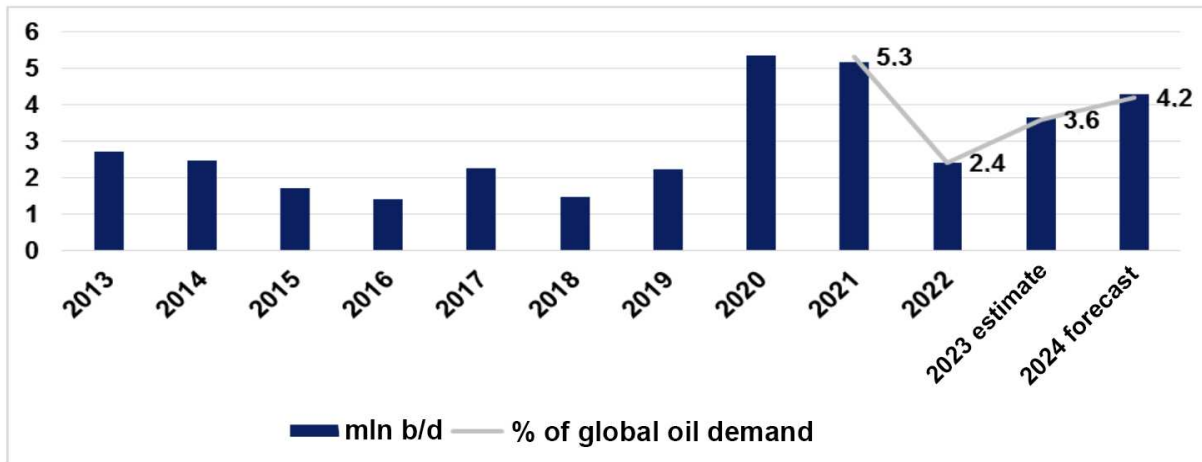
**Figure 8. Dynamics of oil production by OPEC+ countries, million b/d**



Source: US Energy Information Administration.

In 2024, global oil supply, especially in the first half of the year, will continue to grow faster than demand, with all production growth expected outside the OPEC+ zone – mainly in Brazil, Guyana, the US, but also in the UK and Norway. To maintain the price of oil, OPEC+ countries will have to further reduce production. It is estimated that OPEC's spare capacity in 2024 could reach 4.3 million b/d, representing 4.2% of expected global oil demand (Figure 9).

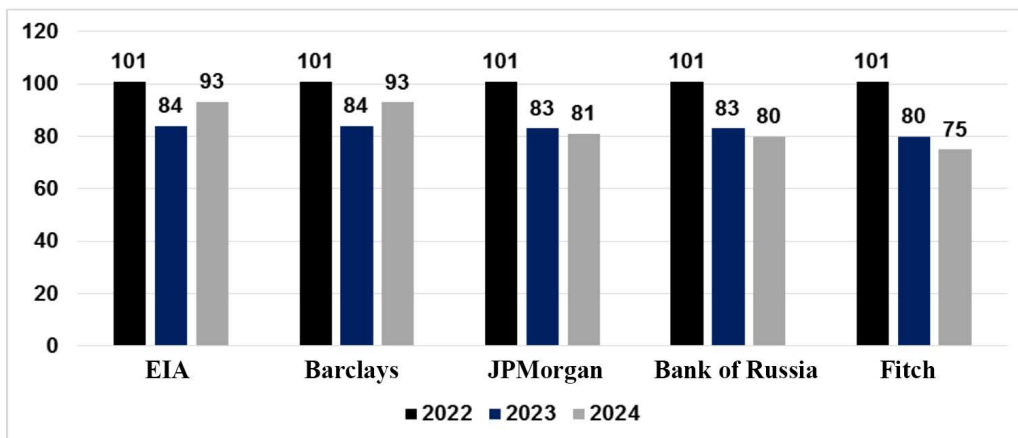
**Figure 9. OPEC spare capacity**



Source: US Energy Information Administration.

Provided the current institutional structure of the market is preserved, the price of a barrel of Brent, which will decrease by 17-20% in 2023 compared to 2022, is expected to be in the range of \$80-\$93 in 2024 (Figure 10).

**Figure 10. Brent oil price forecasts in 2024, USD per barrel**



Downside risks for oil prices exceed upside risks. The structural slowdown of the Chinese economy and the expected slowdown in the major developed economies will continue to exert downward pressure on the oil price in 2024. In the fall of 2023, oil quotations reacted weakly to the aggravation of the situation in the Middle East. The geopolitical risk premium in the oil price will increase significantly only in case of a direct military conflict between major regional players.

In addition to fundamental factors, high interest rates of the central banks of the world's largest economies, which have been observed since the fall of 2022, exert downward pressure on the price of oil, as well as on the prices of all risky assets. In order to suppress inflation and prevent debt accumulation, the US Fed, the European Central Bank and the Bank of England are likely to keep interest rates high enough in 2024. Borrowing in the market will be expensive for financial market players, which will reduce their appetite for playing for higher oil prices.

An oil price above \$80-\$93 per barrel is a huge risk for the world's largest economies, overburdened with various imbalances and debts, including China and the United States. For a short period of

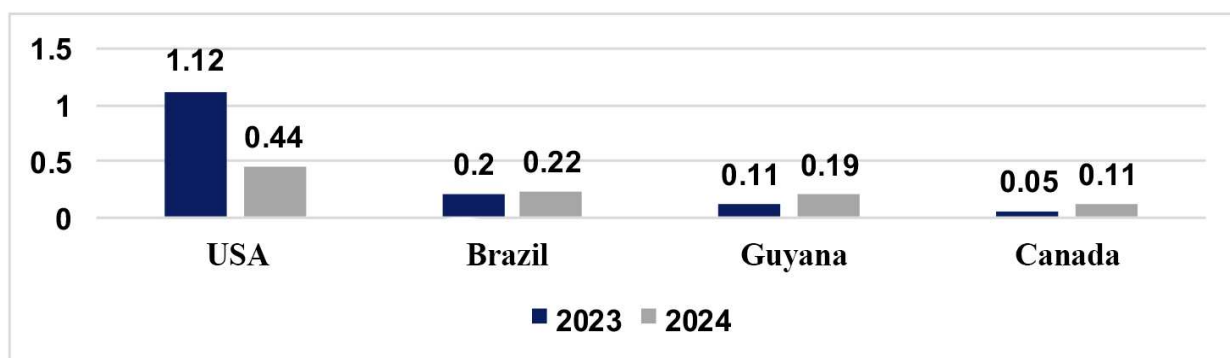
time, the price of oil may break through the abovementioned corridor upwards, but with virtually no time lag, this will have a negative impact on economic growth, which in turn will trigger a decline in demand for oil and its prices.

On November 30, 2023 OPEC+ countries decided to reduce oil production ceilings for the first quarter of 2024 by additional 1 million b/d to the levels previously targeted in June 2023. Saudi Arabia will cut production by 1 million b/d, Iraq by 223,000 b/d, UAE by 163,000 b/d, Kuwait by 135,000 b/d, Kazakhstan by 82,000 b/d, Algeria by 51,000 b/d and Oman by 42,000 b/d. Saudi Arabia confirmed that it will continue its policy of voluntary additional production cuts introduced from July 2023. At the same time, Russia will reduce crude oil exports by 300,000 b/d (confirming the 2023 commitment) and oil products by 200,000 b/d to the levels of May-June 2023. The agreement was not formalized as an official OPEC+ decision, but as voluntary steps by individual member countries of the alliance, which indicates deep contradictions among the alliance members. Notably, the UAE has been allowed to increase oil production, even taking into account the new voluntary restrictions. After March 2024, the new production ceilings will be revised depending on the oil market situation.

Brazil unexpectedly announced its accession to the OPEC+ Charter of Cooperation from January 1, 2024. Brazil, along with the US, Canada and Guyana, is the main beneficiary of the OPEC+ policy and continues to increase oil production and exports (Figure 11). Although the charter is open for signature to all oil-producing countries and does not formally impose any obligations on them to regulate production, the Brazilian initiative was met with anxiety by investors. Petrobras, the national state oil company with capitalization around \$100 billion, has announced plans to invest more than \$100 billion in expanding hydrocarbon production over the next five years. Current and expected revenues from oil exports are the most important factor in the growth of the Brazilian economy. In an attempt to allay fears, Brazilian President Lula da Silva stated that the country will not join OPEC+ oil production restrictions.

Guyana, backed by an international oil consortium of the US ExxonMobil (45% participation and operator) and Chevron (30%) and China's CNOOC (25%), expects to reach a production level of 1.2 million barrels of oil per day by 2027. The country's oil successes have led to an escalation of the territorial dispute. A national referendum held in Venezuela on December 3, 2023, reaffirmed its claim to Guyana's 160,000-square-kilometer Essequibo territory to the west of the Essequibo River. Venezuela has already questioned the legitimacy of the actions of Guyana and the international offshore oil consortium on the territory that Venezuela considers its own basing on the referendum results. The consequences of these actions, escalating in real time, are unclear, but it is evident that even in the most negative scenario, the US, Canada and Brazil will easily cover the shortfalls in the market for oil from Guyana.

**Figure 11. Oil production in Western Hemisphere countries, million b/d**



Source: International Energy Agency and national statistics.

### **Gas**

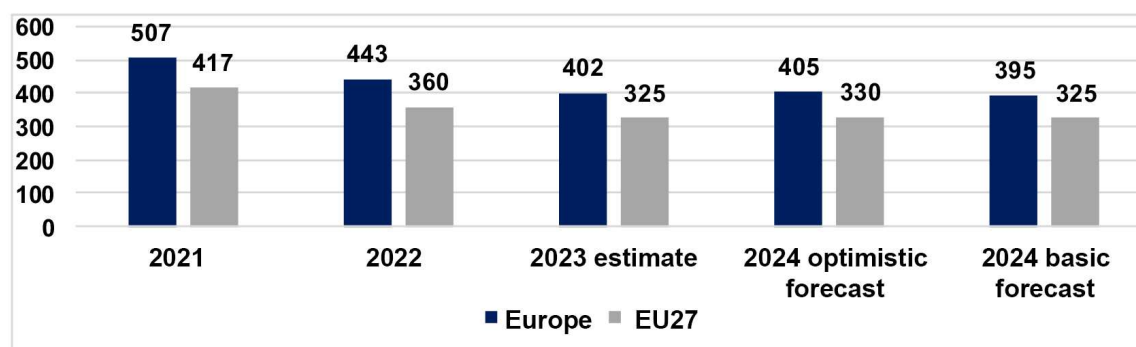
The most important factor in the restructuring of the largest regional natural gas markets was the crisis in the European gas market that began in the second half of 2021 and the overlapping shock of the Ukrainian crisis. The accelerated transformation triggered three powerful trends: first, a reduction in gas demand in Europe, which will not return to 2019 levels; second, increased physical interconnectivity of the largest regional natural gas markets due to the accelerated development of international liquefied natural gas (LNG) trade; third, a shift in gas prices in Europe and APAC to higher levels, which is likely to continue for several years.

The analysis of the development of natural gas markets should be preceded by important remarks on the reliability of international and national statistics on natural gas production, consumption, imports and exports, and natural gas in storage. The time series of data on these indicators in different authoritative sources often differ by 15-20%, which makes it difficult to obtain accurate estimates. This is especially true for statistics on international gas trade, primarily in Europe, where gas flows, constantly changing the host firm, repeatedly cross state borders, and in both directions.

### **European gas market**

In Europe (EU 27, UK, Norway, Switzerland, Liechtenstein and the republics of the former Yugoslavia), gas demand continued to decline in 2023, driven by demand destruction due to higher prices, as well as difficulties in securing sufficient gas imports due to the breakdown of the gas linkage between Russia and Europe (Figure 12).

**Figure 12. Gas demand dynamics in Europe, bcm**



Source: calculated according to Eurostat and national statistics.

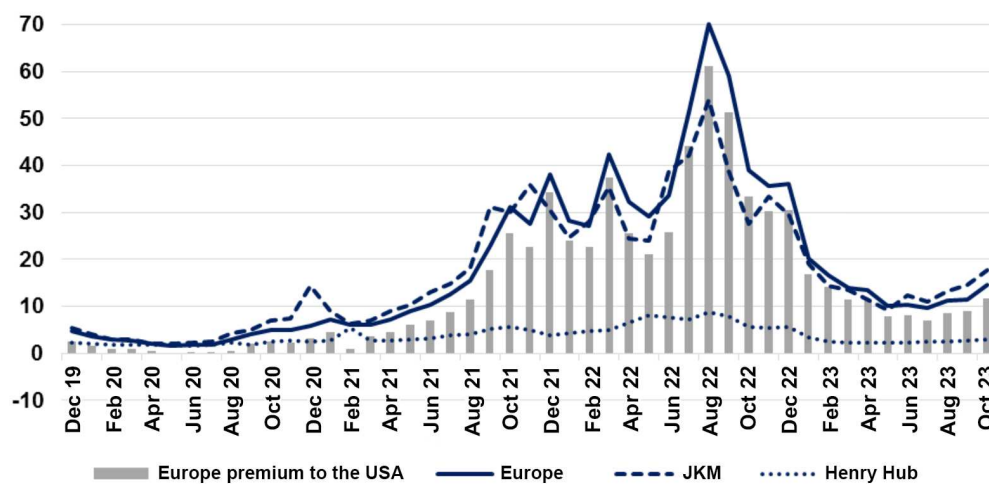
In 2024, gas demand in the European economies in the basic forecast scenario will remain around the 2023 level, while in the optimistic forecast scenario it will increase slightly but remain almost 100 bcm below the 2021 level.

In general, after a significant contraction in 2022-2023, gas demand in Europe has stabilized, and if it declines, it will do so at a slow pace. Continued gas demand in 2024 against the background of unchanged gas production will lead to stabilization of gas imports. The share of LNG in Europe's total gas imports in 2023 is estimated at 49%, compared to 21% in 2021.

After 2024, an agreement on Russian gas transit to Europe via Ukrainian pipeline system will expire. If a new contract is not signed, Europe will increase LNG imports and the latter's share in total European gas imports will exceed 55%.

Natural gas prices in Europe declined noticeably in 2023 from high levels, especially in mid-2022, but did not return to 2021 levels (Figure 13) when the gas crisis emerged in European economies.

**Figure 13. Dynamics of natural gas prices in major regional markets, USD per 1 million Btu**



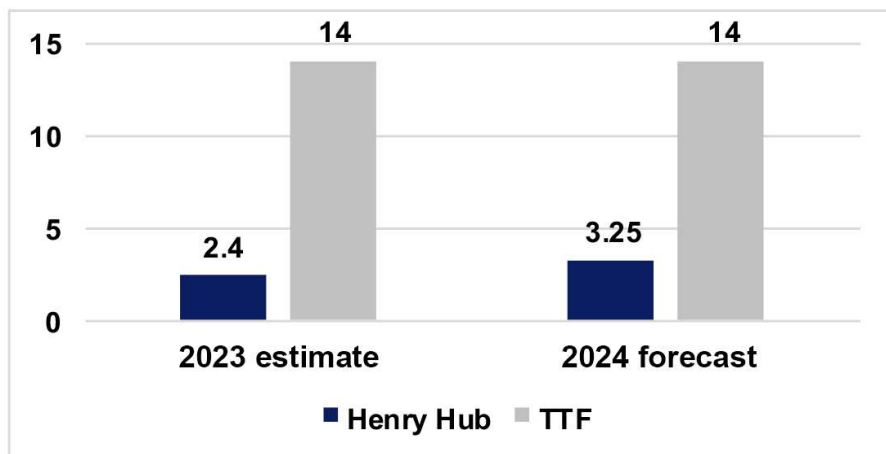
Source: calculated according to the data of world stock exchanges.

The geopolitical shock of the events in Ukraine superimposed on this crisis has stabilized European gas prices at a high level. European gas prices are 3-5 times higher than in the US, and this situation may last for several more years.

In 2024, the gas price at Henry Hub, the most liquid US gas hub, is expected to be \$3.25 per mmBtu, and at TTF, the Dutch hub, it is expected to be \$14 per mmBtu (Figure 14).



**Figure 14. Henry Hub and TTF (Netherlands) gas prices in 2024**



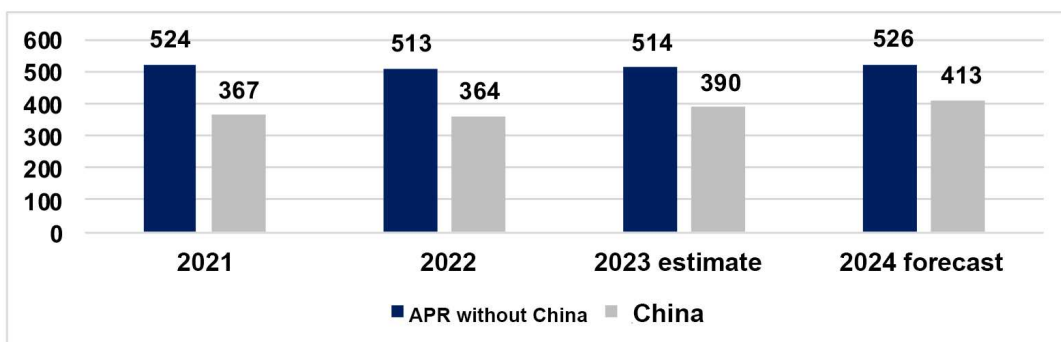
Source: IMEMO RAS.

**APAC countries**

The Asia–Pacific (APAC) gas markets function as national markets of individual countries. Gas prices in the Asia-Pacific Region are closely integrated with gas prices in Europe. Gas demand in Japan, South Korea and Taiwan is close to saturation.

Gas consumption is growing slowly in India, which cannot massively switch to this more expensive fuel, as India pays special attention to the state of its balance of payments. The driver of gas demand in APAC is China, where gas consumption grew to 390 bcm in 2023 (Figure 15). China is likely to surpass Europe in terms of gas demand in 2024.

**Figure 15. Dynamics of natural gas demand in APR countries, bcm**



Source: International Energy Agency.

**World natural gas trade**

In 2022, rapidly growing LNG exports equaled pipeline gas exports in terms of volume. The decline in pipeline gas imports by Europe in 2022 and 2023 finally puts LNG in the lead. In 2024, global LNG exports may reach 570 bcm.

US and Qatar will be the main beneficiaries of this process. In the first half of 2023, the US regained its position as the world's largest LNG exporter, pushing Australia into second place and Qatar into third place. The main flows of US LNG are directed to Europe and the UK. The US Department of Energy estimates that the LNG export capacity of US LNG terminals will increase by 100 bcm by 2027. The US will also start exporting LNG through terminals in Mexico, whose

export capacity will increase by 11.5 bcm by that time. Qatar plans to increase LNG exports by almost 70 bcm to 176 bcm by 2027.

**Table 8. Dynamics of Russian gas exports, bcm**

	2022	2023 estimate	2024 forecast
TOTAL	157	137	142
Pipeline gas exports	117	97	100
- Europe	62	25	25
- China	15	22	25
- Other countries	40	50	50
LNG exports	40	40	42
- Europe	21	20	20
- Other countries	19	20	22

Source: IMEMO RAS based on international statistics data.

Russia is a rather large exporter of liquefied natural gas (4th place in the world in 2022). In 2024, LNG exports from Russia may reach 43-45 bcm. (Table 8). By 2030, Russia plans to increase the production of LNG to 140 bcm. These plans may be hindered by the tightening of sanctions pressure from the United States, which in November 2023 placed on the sanctions list a subsidiary of Novatek implementing the Arctic LNG 2 liquefaction plant project. This is a joint venture between Novatek (60% stake), France's TotalEnergies (10%), China's CNPC (10%) and CNOOC (10%), and a consortium of Japanese companies JAPAN ARCTIC LNG (10%). Earlier, US sanctions were imposed on Arctic LNG 2 contractor Arctic Energies. The purpose of the sanctions is to force foreign companies to withdraw from the project, create problems with ordering a sufficient number of gas carriers and concluding export contracts.

## Metals

### Steel

The results of the past year 2023 for the global metallurgy cannot be assessed unambiguously. If in the first half of the year there was some inertia of the post-pandemic recovery growth, starting from June, these dynamics weakened noticeably. According to the World Steel Association experts, the impulse of recovery after the pandemic shock was hindered by high inflation and rising interest rates in the banking sector, the ongoing military conflict in Ukraine and the slowdown in production in China. In general, the growth of global production for the year did not exceed 2.0% (Table 9).

**Table 9. Dynamics of global steel production and consumption, million tons**

	Production			Consumption		
	2022	2023	2024	2022	2023	2024
World	1875	1912	1890-1980	1750	1850	1855-1950
Asia*	1345	1355	1370-1410	1290	1320	1375-1450
China	1013	1080	1095-1130	930	960	970-1140
India	125	145	145-148	140	123	126-130
America**	180	184	185-190	183	185	190-195
USA	81	80	80-84	82	85	84-88
Europe***	188	195	198-200	192	195	200-206
EU****	152	150	148-150	155	166	175-180
CIS	88	85	85-88	45	42	42-45
Russia	71.5	70.8	70-74	44	48	45-48

Source: WSA

\* Japan, China, India, Republic of Korea, Turkey, Taiwan, Iran;

\*\* North and South America; \*\*\* excluding CIS countries; \*\*\*\* EU and UK.

**India's steel industry** has been the most successful in overcoming the effects of the pandemic and has performed well this year, with its economy in the process of dynamic growth, primarily due to large public spending on infrastructure. In addition, the housing sector, renewable energy, the auto and durable goods industries are growing strongly.

An important factor in the development of the global steel industry was the relative slowdown in **China's steel industry**. Some slowdown in the traditionally dynamic growth of the industry can be seen primarily as a confirmation of the country's leadership's decisive course to eliminate economic imbalances and ensure future stable development in accordance with the era of new normalcy announced back in 2014, within which a new development model based on the priority of domestic consumption and innovation is planned to be formed. It should be recalled that during the period of accelerated industrial growth in 1990-2018, China's ferrous metallurgy capacity was heated up to an unprecedented scale – from 68 million tons (1990) to 855 million tons (2018), i.e. by 13 times. The main factor behind the slowdown in production growth was a drop in the growth rates of the construction and infrastructure sectors, which have been thoroughly overheated in recent years. An additional hindering factor is also a noticeable increase in investments in decarbonization of production.

The current year has been quite challenging for the Chinese steel industry. Consumption of steel products in the country is stabilizing. The return to the previous growth rates of construction will most likely never be restored, as the process of urbanization has largely been completed, and the resettlement of hundreds of millions of people from villages to cities has already taken place. By now, the main transportation corridors have been built and the necessary infrastructure has been created. As a consequence, the country has a significant excess capacity for steel production.

China's mechanism of steel capacity renewal requires that new capacity input should be noticeably lower than the capacity being replaced, which as a result should somewhat curb the increase in ferrous metal production and even, if possible, reduce total output. In 2023, this was achieved: steel production growth was no more than 3.5%, which is unusually low for China. And China's share in global steel consumption fell from 57.1% to 53.4%. It is assumed that in the short term, the described trends are likely to remain largely unchanged.

The **US and EU** governments have used economic stimulus programs in the past year, but they are mainly focused on sectors related to the climate agenda – alternative energy, electric vehicles and green hydrogen produced in electrolyzers. This has created new demand for metal, particularly for the construction of wind turbines, but for the traditional real sector of the economy, all these initiatives primarily mean higher costs.

Several factors had a key impact on the **Russian steel industry** this year. First, the sanctions imposed in March by the European Union, which closed the European market for rolled steel, rebar, welded and seamless pipes to Russia. According to estimates by the Russian Ministry of Industry and Trade, the sanctions affected exports of Russian steel products worth about \$3.7 billion in total. Moreover, one of the most negative consequences of the sanctions is the growth of the industry's technological backlog at present, when global metallurgy has entered a new cycle of modernization, basing on the activation of decarbonization processes, the development of new methods of low-carbon techniques of metal production and new methods of preparation of metallurgical raw materials. Undoubtedly, the loss of access to new technologies will have a negative impact on the future competitiveness of Russian metallurgy. Secondly, the slowdown of the global economy under the influence of high inflation and rising interest rates, which puts pressure on global metal prices. Thirdly, the condition of the Russian economy. The situation here remains quite difficult, primarily due to a drop in domestic demand for metals and the increased tax burden (MET and excise duty on liquid steel), as well as stalled government support measures for the steel industry. According to the Russian Steel Association, in 2023, steel production fell by 0.8%, imports by 15%, and apparent consumption by 2.5%. The auto industry (-20.2%) and general machine building (-8.7%) were the worst hit.

Russian metallurgy had traditionally had a high export component. This year, exports decreased by 21% due to sanctions. Against the backdrop of the closure of European markets, Russian companies sharply increased exports to Asia at the beginning of the year. Despite a number of problems related to transportation, international payments and secondary sanctions against consumers of Russian products in third countries, this direction remains attractive for Russian metallurgists. For example, one of the largest consumers of Russian steel products is India, which is currently undergoing accelerated urbanization. The country is currently implementing and planning to implement investment projects with a total value of about \$1.3 trillion.

Perhaps the most painful problem in 2023 was the currency market. The weakening of the ruble, which began in the middle of last year, with the exchange rate falling below 90 rubles per dollar, became the main factor in the unwinding of inflation. The Central Bank's active measures had a temporary effect. As a result, the Russian economy has seen an increase in the tendency to strengthen state control. As a matter of fact, this has been inherent in the Russian economy before, and since last year the defense industry and some key sectors (aviation industry, microelectronics, shipbuilding) have actually switched or are switching to mobilization mode. These processes have not passed over the ferrous metallurgy either. Three years ago, the Ministry of Industry and Trade of the Russian Federation decided to introduce restrictive domestic prices for steel products. In addition, the government abruptly changed fiscal norms with regard to Russian companies, introducing increased mineral extraction tax and excise taxes on liquid steel, motivated by the withdrawal of excess profits of metallurgical business, which "cheated" the state (quoting Deputy Prime Minister A. Belousov). At the end of last year, the government paid increased attention to the production of construction rebar due to the active growth of the construction sector – one of the locomotives of the economy in the current difficult situation.

In August 2022, the Russian government approved the strategy for the development of the metallurgical industry until 2030. The main conclusion of the Russian government is that the Russian metallurgy and the economy in general withstood the test of strength under the sanctions imposed last year.

The main drivers of metal consumption growth in the future are housing construction, implementation of projects of the roadmap of the Ministry of Construction of the Russian Federation for wider use of metal in construction, the program for modernization of the housing and utilities sector, and implementation of major oil and gas projects.

The strategy emphasizes that in the context of an unstable market and continuing political and economic pressure, which have significantly distorted the nature of the global economic cycle, it is quite difficult to forecast the development of steel production even in the short term. In addition, according to EUROFER, the world steelmaking capacity surplus reaches 600 million tons. At the same time, new plants with a capacity of up to 150 million tons are planned to be commissioned in various countries in 2023-2026. The difficult situation in the global hydrocarbon market and instability in the currency market are likely to persist. Additional uncertainty is caused by the ongoing conflict in Ukraine.

Most experts assume that global steel demand in 2024 in China, which plays a determining role in the global production and consumption of steel products, will remain at the level of the current year. The World Steel Association (WSA) estimates that in 2024 a slight increase in global steel consumption can be expected within 2.2% and production within 2.5%.

### ***Aluminum***

According to the International Aluminium Institute (IAI), global primary metal production in 2023 grew by 2% (2.4% a year earlier), which generally allows maintaining positive trends in the difficult conditions of the global economy's adaptation to overcoming the consequences of the pandemic, aggravation of climatic factors and geopolitical situation in different regions. These factors determined the decrease in demand for aluminum. Analysts believe that 2023 will be significantly more challenging for the global aluminum industry compared to 2022, and will even be a kind of a test of strength for all aluminum producers. One of the reasons is a sharp tightening

of requirements for decarbonization of primary metal production. At the same time, the announced outpacing growth of such new economic sectors as solar energy and electric transport is likely to ensure rapid growth in aluminum consumption only in the coming five-year period.

Total annual growth in global production is driven solely by **China**, which accounts for more than 60% of global metal output. But even in China there is overstocking of the domestic market and abnormal growth of stockpiles to more than 1 million tons (Table 10).

As a clear consequence of these trends, aluminum prices at the LME (London Metal Exchange) hit new anti-records – falling below \$2,400 per ton. For comparison, a year earlier prices for the metal were fixed at around \$3,400 per ton.

Under these conditions, the prospects of **Russian aluminum giant RUSAL** look more than dim. If negative trends persist, the company risks being on the verge of survival. The main reasons are the cumulative effect of sanctions and logistical constraints.

Another sanctions package by the US, which announced the imposition of 200% duties on imports of aluminum and aluminum products from Russia from April 10, has significantly affected the industry. The formal reason given by the White House was that "the aluminum industry is a key part of Russia's defense industrial complex". Naturally, this refers to RUSAL, which provides more than 50,000 jobs, mostly in Siberia. Last year, as a result of sanctions, the company faced an acute shortage of raw materials due to Australia's ban on alumina and bauxite exports to Russia (about 20% of supplies), as well as the loss of the Nikolaev alumina refinery, which was nationalized by the Ukrainian government. In addition, due to political unrest in Guinea, which is an important foreign raw materials asset of RUSAL, the company incurred significant losses and was even forced to partially reduce production (e.g. at the Tayshet smelter), as well as to freeze some investment projects.

Finally, in 2023, the situation in the logistics of raw material deliveries and finished product exports both by rail and sea deteriorated sharply, primarily due to the withdrawal of major international container carriers from the Russian market.

**Table 10. World primary aluminum production and consumption, million tons**

	Production			Consumption		
	2022	2023	2024	2022	2023	2024
World	68.7	74.5	76-77.5	73.2	77.5	75-76
China	35.8	38.5	45-48	35.6	25.7	34-35
Japan	-	-	-	2.6	2.7	2.7-2.8
USA	2.75	2.85	3-3.1	6.4	6.6	6.7-6.9
Russia	3.15	2.7	2.5-2.6	0.8	0.8	0.75-0.8
Norway	1.63	1.64	1.6-1.65	0.77	0.78	0.8
Canada	1.05	1.0	1-1.05	0.84	0.86	0.85-0.87
Central and South America	1.3	1.45	1.45-1.5	1.5	1.53	1.55-1.6
Europe	4.5	4.57	5- 5.2	9.5	9.55	9.6-9.65
India	3.4	3.45	3.45-3.55	2.1	2.12	2.12-2.15
Middle East*	4.6	4.7	4.7-4.75	1.55	1.65	1.75-1.8

Australia	2.1	2.14	2-2.2	0.28	0.32	0.35-0.4
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\* *Saudi Arabia, Bahrain, UAE*

*Source: International Aluminium Institute (IAI); Russian Aluminum Association (Association of producers, suppliers and consumers of aluminum).*

It is difficult to assess the prospects for RUSAL's production development given the current high level of uncertainty in global markets and harsh Western sanctions. In general, critical downturns have been avoided, but the current crisis has shown that the existing system of operational management and control over the logistics chain – from raw material extraction to supply of the final product to the consumer – has shown a lack of efficiency. Therefore, the recovery of demand for aluminum products may take several years.

## Timber and paper products

In Russia, the harvesting of softwood, production of softwood sawn timber, glued plywood, wood pulp, paper and cardboard are still the main export-oriented sectors of the timber industry. These markets accounted for 75.4% of the value of global exports of all types of timber and paper products in 2022. In Russia, this indicator in 2022 was significantly higher – 80.8%. Exports of softwood sawn timber are growing in Russia: their share in Russian exports of forest paper products amounted to 46% in 2022 against 6% for softwood timber. The share of other major timber and paper export products also exceeded the share of unprocessed wood: paper and cardboard accounted for 22%, glued plywood 13.3%, and wood fiber semi-finished products 12.2%.

Among the factors influencing the dynamics of the global markets for timber and paper products in 2022-2023, the role of the coronavirus epidemic has waned, but the Ukrainian crisis has had a strong impact. This was reflected in the reduction of timber exports from Russia to European countries and their reorientation to other markets.

North America experienced a short-term decline in 2023 in all lumber end-use markets except industrial production. However, 2024 will see a return to market growth.

Russia continues the process of transition from the export of unprocessed softwood roundwood to its processed products. This trend will continue in 2024. The economic sanctions imposed on Russia in 2022-2023 had a significant impact on the production and export of Russian timber and paper products. European companies operating on the Russian market sold 11 enterprises, including Swedish IKEA – plants in the Leningrad, Novgorod and Kirov Regions (sanded and laminated chipboard, sawn timber, pellets) and Stora Enso – two plants in the Novgorod Region (sawn timber and pellets), Finnish Metsä Group – sawmill in Sviri, Leningrad Region (sawn timber and pellets), Austrian Mayr-Melnhof Holz – MM Efimovsky plant in the Leningrad Region (sawn timber and pellets). These production facilities continued to operate under Russian management. A number of foreign companies continued to operate in Russia, including Austrian companies Egger and Kronospan, Swiss Krono Group, Turkish Kastamonu, German PERI, and Japanese Iida Holdings Group.

The restructuring of Russian markets for timber and paper products in 2022-2023 has revealed a number of problems. Exports of roundwood to China faced the introduction of strict requirements by the Chinese side to pre-fumigate or debark imported products (to combat the spread of bark beetle). Insufficient development of logistics technologies, as well as transportation and warehousing infrastructure, has become apparent.

In 2023, China continued to drive global trade in timber and paper products. China replaced Russia as a seller of unprocessed softwood raw materials through purchases from New Zealand and Western Europe. China retains its position as the world leader in commercial timber purchases. At the same time, China is increasingly interested in boosting imports of wood fiber semi-finished products instead of unprocessed wood raw materials for paper production (balances, process chips). This changes the focus of Russian exporters on the Chinese market and stimulates the development of relevant production facilities in the Russian Far East.

The situation in the global pulp and paper industry in 2022-2023 continues to reflect a global long-term trend: a steady decline in the production of writing and printing paper (newsprint, magazine



paper, etc.) in the context of increasing use of electronic mass communications. The demand for newsprint and magazine paper is also decreasing in the Russian Federation. The consumption of sanitary-hygienic and household paper grades, certain types of cardboard, special paper grades, as well as pulp, including fluffed and soluble, continues to grow.

In developed countries, a continued restructuring of the pulp and paper industry should be expected in 2024. This restructuring implies a reorientation towards viable market segments for paper and cardboard products, as well as products produced by wood biomass refining and nanotechnological processing of wood raw materials. It is possible to continue moving production facilities, primarily from Europe, to capital-attractive South American countries (Brazil, Chile) in order to reduce the cost of paper and board products. Scientific and technical progress in the use of wood raw materials, as the experience of Japan shows, allows us to expect the development of production of a new class of so-called nanofibers from wood by nanotechnological methods, which can give impetus to new industries for the production of materials with new properties (high flexibility, durability, etc.) that can displace plastics from many areas of use, which creates favorable prospects for the restructuring of the global pulp and paper industry and its further growth.

The pulp and paper industry in China, which has become the world's leading producer of paper and cardboard, has been undergoing changes in recent years that are significant for the situation on the national markets of wood raw materials and wood fiber semi-finished products. Firstly, there was a deep structural reorganization of the industry, old, small and inefficient production facilities for paper and cardboard from non-wood raw materials (bamboo, cotton linter, etc.) were closed down, and modern large pulp and paper plants using wood raw materials were developed. Secondly, a new trend in import policy emerged: China began to purchase more actively market pulp instead of raw wood in the form of balances or process chips on the world market.

In 2024, the Chinese paper and cardboard market can be expected to grow by 1.0% in terms of production and 1.5% in terms of consumption. In Japan, a decrease in the output of pulp and paper products can be expected in 2024 – by 0.9%.

The dynamics of average world prices in the main Russian export markets of timber and paper products in 2024 will reflect the new situation in our country's foreign trade, i.e., a sharp decline in supplies of Russian roundwood. Export prices for wood raw materials and wood products (sawn timber, glued plywood) should be expected to increase. World prices for paper and cardboard may continue to rise in 2024, just as they did in 2020-2023. According to our forecast, average world prices (Russian prices in brackets) in the commercial softwood market in 2024 will amount to \$100-110 per cubic meter (110-120); in the paper and cardboard market – \$1,200-1,300 per ton (1,000-1,100).

**Table 11. Production and consumption of commercial softwood timber, million cubic meters**

	Production			Consumption		
	2022	2023	2024	2022	2023	2024
World	1186.3	1181.7	1179.8	1174.3	1167.6	1166.7
Asia	85.1	83.5	83.4	124.0	120.9	129.3
China	29.5	28.9	28.8	60.9	62.5	65.3
Japan	21.5	21.2	21.3	22.6	22.5	22.6
Europe	514.1	500.2	498.2	492.9	484.9	493.8

United Kingdom	7.7	8.5	8.7	8.1	8.8	8.8
Germany	52.4	49.5	46.5	48.6	48.2	45.9
Russia	161.0	164.2	167.2	152.8	156.8	159.1
Finland	47.4	49.5	44.3	47.36	49.5	45.1
France	18.3	17.5	17.0	17.7	16.6	16.5
Sweden	66.0	64.8	61.8	68.0	66.8	65.0
North America	422.6	420.8	421.2	416.5	415.9	415.3
Canada	116.5	115.5	116.5	115.1	115.2	115.1
USA	306.1	305.3	304.7	301.4	300.6	300.2

Increased protectionist tendencies and intensified competition for markets are forcing Russian producers to improve their export strategy. The more than twofold decrease in softwood exports was accompanied by the intensified construction of wood processing enterprises. Foreign capital interested in utilizing Russian wood resources, primarily from Finland and China, took an active part in this process. Facilities have been built to produce sawn timber, glued plywood, wood panels, etc., including near Russia's border with China. At the same time, Russia retains a strong position in the global market of softwood raw materials (fourth place in the world in terms of exports of these products in 2023 after New Zealand, the Czech Republic and Germany). In the sawn timber market, the opportunities for Russian companies to compete are significantly complicated (standards, import duties, non-tariff restrictions, etc.), which requires the creation of a truly export-oriented timber processing industry, adjusted to the conditions of work in foreign markets.

Russia has taken a number of important government measures in recent years to improve the country's timber industry. As part of the strategy of reorienting the forestry complex to deep processing of raw materials inside the country, from January 1, 2022 the government introduced a ban on the export of unprocessed roundwood and a barrier customs duty on the export of roughly processed wet lumber with a thickness of more than 10 cm. This is about blocking the export of roughly hewn logs, which are used to disguise attempts to export roundwood. From January 1, 2022, the government also abolished export quotas for softwood timber. Under these regulatory measures, a new electronic timber export accounting and reporting mechanism is being developed.

**Table 12. Production and consumption of paper and cardboard, million tons**

	Production			Consumption		
	2022	2023	2024	2022	2023	2024
World	415.3	412.6	407.6	421.1	417.8	413.9
Asia	208.6	209.5	210.1	218.5	224.9	224.3
China	128.4	128.6	129.7	135.9	137.3	139.3
Japan	23.7	23.5	23.3	22.6	22.4	22.2
Europe	100.2	96.2	96.6	90.3	89.4	90.8
United Kingdom	3.5	3.6	3.8	7.2	7.2	7.7
Germany	21.6	21.5	20.8	17.8	17.7	18.1
Russia	9.5	9.6	9.8	7.1	7.1	7.3
Finland	7.9	8.2	8.4	1.2	1.3	1.4
France	7.1	6.7	6.8	8.3	7.8	7.9

Sweden	8.5	8.7	8.8	0.8	0.8	1.0
North America	76.5	75.2	71.5	71.3	70.1	69.8
Canada	9.0	9.0	9.0	5.5	5.6	5.7
USA	67.5	66.2	62.5	65.8	64.5	64.1

# STATE AND FORECAST OF ECONOMIC DEVELOPMENT OF THE MAJOR FOREIGN COUNTRIES

## European countries

### European Union

Adaptation to the changed economic realities and the absence of new critical challenges ensured the predictability of the development of the EU economies. The slowdown in growth at the end of 2022-2023 was generally in line with forecasts. According to the European Commission data published in November 2023<sup>8</sup>, the economies of the EU and the Eurozone will grow by 0.6% each. Against the backdrop of slowing external trade, persistent weak domestic demand due to both higher prices for goods and services and lower availability of credit resources ensures low growth rates, despite the increase in employment, wages and stabilization of prices in the power sector.

The period of a multiple decline in EU GDP growth, observed for the second year in a row, is expected to come to an end: in 2024, according to forecasts, the EU will enter a phase of accelerated economic growth. So far, the Southern European states – Portugal, Spain and Greece – have demonstrated the greatest adaptability due to the contribution of the tertiary sector, primarily tourism, trade, and domestic consumption. The French, Belgian and Italian economies developed above expectations, outside the euro area – the Romanian and Danish economies. Italy, despite negative forecasts, managed to avoid recession thanks to the dynamics of personal consumption and investment activity. France avoided recession not only due to a mild winter, which kept the country away from the shortage of energy resources at affordable prices, but also due to expensive budgetary support measures, including post-crisis recovery programs, economic development until 2030, and, finally, partial compensation of costs to businesses and households for the increased energy consumption prices. A sustainable banking sector with a solid stock of own funds played its stabilizing role. Sluggish economic growth and high, although declining, inflation will be typical for France in 2024, when the phase of the business cycle called quasi-stagnation will continue. In Denmark, the situation in the pharmaceutical industry, which became the driver of its development, and the export component had a positive impact on economic dynamics.

As expected, the aggravation of the situation was observed in Germany, the Czech Republic and the Nordic countries. However, a significantly larger number of EU member states entered the negative zone in terms of GDP dynamics: Germany, the Czech Republic, Sweden, the Baltic States, as well as Ireland, Luxembourg and Austria. Declining consumption, problems in the secondary sector, especially in energy-intensive industries, and a slowdown in foreign trade led to a recession in the German economy. The Czech Republic, being highly dependent on Germany, was also unable to avoid a decline in GDP. The factor of private consumption and the slowdown in foreign trade, especially in open economies, had a negative impact on the situation in other countries where GDP contraction was observed.

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<sup>8</sup> Autumn 2023 Economic Forecast: A modest recovery ahead after a challenging year. European Commission, November 2023. Available at: [https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/autumn-2023-economic-forecast-modest-recovery-ahead-after-challenging-year\\_en](https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/autumn-2023-economic-forecast-modest-recovery-ahead-after-challenging-year_en) [Accessed 20/02/24].

**Table 13. Forecast of GDP and unemployment dynamics in the EU**

	Share in EU GDP, %	GDP dynamics, %			Unemployment, %		
	2022	2022	2023	2024	2022	2023	2024
Germany	24.4	1.8	-0.4	0.8	3.1	3.2	3.2
France	16.6	2.5	1.0	1.2	7.3	7.2	7.3
Italy	12.2	3.7	0.7	0.8	8.1	7.7	7.4
Spain	8.5	5.8	2.3	1.7	12.9	12.0	11.7
Netherlands	6.0	4.3	0.6	1.0	3.5	3.7	4.0
Belgium	3.5	3.0	1.2	1.2	5.6	5.7	5.7
Ireland	3.2	9.4	-0.9	3.1	4.5	4.2	4.3
Austria	2.8	4.8	-0.5	0.9	4.8	5.2	5.4
Finland	1.7	1.6	0.0	0.5	6.8	7.2	7.3
Portugal	1.5	6.8	2.1	1.4	6.0	6.5	6.5
Greece	1.3	5.6	2.3	2.2	12.5	11.3	10.3
Euro area 20	84.8	3.4	0.6	1.2	6.8	6.6	6.6
Poland	4.1	5.3	0.5	2.5	2.9	2.9	2.9
Sweden	3.5	2.8	-0.6	0.0	7.5	7.6	8.3
Denmark	2.4	2.7	1.3	1.3	4.5	4.6	5.0
Romania	1.8	4.6	2.2	3.3	5.6	5.5	5.3
Czech Republic	1.7	2.4	-0.4	1.3	2.2	2.5	2.6
EU 27	100	3.4	0.6	1.3	6.2	6.0	6.0

Source: 2022 and 2023 – Eurostat, forecast – IMEMO RAS

Continued inflationary pressures, which led to a decline in consumption and investment, caused a significant slowdown in economic growth in the EU in 2023. Foreign trade also contributed to the economic dynamics, where, as predicted, negative dynamics continued, especially in export flows.

Intra-bloc trade remains dominant within the EU, and, under the conditions of 2022-2023, this was particularly evident in export supplies. The long-term downward trend in the share of non-EU exports continued: in 2022, non-bloc trade within export flows accounted for 37.8% of the total. Imports were strongly affected by the situation in the raw materials sector: the EU had to look for new suppliers. As a result, the share of imports from outside the EU increased by 3.7% and amounted to 42.3% of total imports in 2022, similar to the level of the early 2010s. If the current conditions persist, the EU will not be able to reverse the trend in 2024 either.

Rising inflation prompted the European Central Bank to tighten policy by rapidly implementing the largest increase in its interest rates, which quickly affected credit conditions for both households and businesses and began to have a dampening effect on all components of domestic demand. In France, the impact of worsening credit conditions on economic growth is estimated at -0.4% of GDP in 2023, and in the following year, taking into account the time lag, it will show full effect of -0.9% of GDP. A number of central banks outside the Eurozone have already started to cut rates.

However, a softening of the ECB's policy is not expected until the second half of 2024 at the earliest, and this will continue to affect credit financing conditions and economic growth in general.

The problem of bankruptcies remaining at a high level, especially in the service sector, which had received considerable support during the pandemic, has become more acute. The current economic situation does not suggest an improvement, especially in light of expiring grace periods introduced during the COVID-19.

Another problem for a number of EU countries was the emerging housing crisis. A sharp rise in mortgage rates has reduced household demand for new housing. The number of new construction sites and commissioned housing projects is decreasing. In particular, in France, the decline in household investment in housing will continue into 2024.

The measures taken by the EU to stabilize public finances had a positive impact on the situation in the sector. The acuteness of the problem in the energy sector decreased and this also had a positive impact on the reduction of the burden on the public sector. According to the European Commission's estimates, the weighted average budget deficit will fall to 3.1% of GDP in 2023, with a further reduction to 2.6% in 2024. Public debt will continue to decline, but will not meet the Maastricht criteria in 2024. The EU average in 2023 will be 83.1%, 90.4% in the Euro area; 82.6% and 86.9% in 2024, respectively.

After an almost 8% drop in FDI in the EU in 2022, a deeper decline than in the world as a whole, the foreign capital situation has started to change. Despite inflationary and other risks, investors have become more positive about future projects and expect activity to intensify. The recovery is unlikely to be rapid, but some revival in FDI is possible already in 2024.

The situation in the labor market continues to improve. Unemployment rates remain at historic lows in a number of countries. In France, the continued growth in employment against the backdrop of sluggish conditions is explained by the reduction in working hours during and after the pandemic, as well as the desire of entrepreneurs to keep staff "in store" in the face of labor market shortages, while relying on generous budget subsidies. The expansion of employment ahead of economic dynamics resulted in a decline in labor productivity, which will further affect economic growth.

The growth of the EU economy in 2024 will remain at a low level. The main factors that will continue to determine the economic dynamics will be instability in the energy sector, persistent inflationary pressures, weak availability of credit capital, reduced consumption and lack of strong external demand. Certain risks are imposed by the narrowing of government support programs and the continuation of tight monetary policy. Another increasingly relevant problem of a long-term nature is the emerging trend of declining labor productivity. In a number of EU member states, real disposable incomes of the population will have a positive impact, the growth of which is expected to restore against the background of employment expansion and support from the state.

### **United Kingdom**

In 2023, the British economy tends to ease inflationary pressures against the backdrop of low economic growth. The consumer price index fell from a peak of 11% in October 2022 to 6.7% in September 2023. Compared to the previous year, the nature of inflation has changed: instead of gas and electricity prices, food inflation has come to the forefront. After 14 consecutive key rate hikes from 0.1% in December 2021 to 5.25% in August 2023, the Bank of England took a wait-and-see approach. In the context of rising interest rates, a significant challenge for the government has been

the sharp rise in the cost of servicing public debt, the level of which reached 97.8% of GDP by October 2023. The labor market, which for several years had been characterized by a lack of workforce and, as a consequence, extremely low unemployment, gradually began to return to a balanced state.

In the first half of 2023, the economy managed to avoid recession thanks to factors such as the recovery of production and logistics chains, the smoothing of the imbalance between aggregate supply and demand and the decline in global energy prices: their effect made it possible to offset the negative impact of rising taxes, rising credit costs and strike action. With regard to specific growth indicators, it is worth noting the anomalous situation that has been periodically manifested in recent years in the publication and interpretation of statistical data. In particular, we are talking about a radical revision by the statistical office of the data on the change of GDP between the fourth quarter of 2019 and the second quarter of 2023, i.e. the information on the basis of which the conclusion is made about the degree of economic recovery in relation to the pre-pandemic level. While the August report showed a 0.2% drop in GDP, the revised data published in September showed an increase of 1.8%, i.e. a difference of 2%. As a consequence, the UK, previously considered an outsider in the G7, outperformed Germany and France (0.2% and 1.7%, respectively). The problem is that such "errors" get into official reports, serving as a basis for the government decision-making.

The economic policy declared by the conservative government is aimed at reducing inflation, stimulating growth and reducing public debt. In practice, there has been an increase in the role of the state in the economy and a strengthening of its redistributive function. As a consequence of the policy pursued by Rishi Sunak, first as Chancellor of the Exchequer and then as Head of Government, the tax system has become more progressive and the share of tax revenues in GDP has increased from 33% to 37% – the highest level since the late 1960s, when economic policy was based on Keynesian principles. At the same time, in business circles the growth of the tax burden is assessed as a more significant threat to economic development than the increase in the level of public debt.

If the current trends persist, we can forecast that the local maximums in inflation, interest rates and wage growth will be passed in 2022-2023, and the main risks will shift from inflation to growth in 2024. Taking into account the time lag characteristic of the transmission mechanism of monetary policy, the restrictive impact of the measures taken in 2021-2023 to increase the cost of credit will be fully manifested in 2024. Consumer spending will show a downward trend both due to the eating up of savings in the context of high inflation and as a result of the cooling of the real estate market. In addition, the impact of domestic and global political processes on the economy will intensify. The forthcoming parliamentary elections will become an additional factor of uncertainty restraining business activity. Given that the UK is an oil importer and has limited gas reserves, a rise in energy prices in case of increased geopolitical instability could have a negative impact on its energy security. In this scenario, a likely inflationary surge in the absence of growth incentives could lead to stagflation.

The baseline scenario assumes near-zero growth, further decline in inflation and the consumer price index approaching the target level of 2%, completion of the Bank of England's monetary policy tightening cycle and transition to interest rate reduction. In the negative scenario, there is a recession with a simultaneous increase in inflationary pressure and, as a consequence, the preservation of high interest rates for a long time. In this case, GDP decline at the end of the year

may amount to 0.7%. In both scenarios, there will be an increase in unemployment, which will exceed the "natural" level of 5.1%.

Given that the Conservative government's economic policy has shifted significantly to the left in recent years, there are unlikely to be any dramatic changes if Labor wins the general election. Spot measures (such as the long-discussed introduction of VAT on private school fees), increased spending to stimulate consumers and subsidize businesses, and more government borrowing can be expected. Regardless of the outcome of the elections, the heavy legacy of low labor productivity and rising public debt, shaped by the powerful shocks of the past decade and a half, will remain a factor constraining economic growth.



## United States of America

In 2022, the slowdown in economic growth has raised fears of a possible recession, but GDP growth for 2023 remains positive and even improved in the 3rd quarter. Still, discussions about a possible recession, now postponed to early 2024, are continuing. Due to the peculiarities of growth in 2023, the realization of these fears will largely depend on the outcome of the internal political struggle, once again intensifying in the run-up to the new election cycle.

In the 1st and 2nd quarters of 2023, the economy grew by 2.2% and 2.1% on an annualized basis. In the 3rd quarter of 2023, growth was already 4.9% on an annualized basis. All components of GDP increased, including consumer spending by 4%, investment by 8.4%, and government spending by 4.6%.

US industrial production dynamics continue to show an increase of 1.1% for the first nine months of 2023. The industrial capacity utilization rate was 79.7% in September 2023 and is in line with the average for the period 1972-2022.

The US economy continues to experience trends that could be seen in 2022. These include a strong labor market, rising consumer spending and industrial production, continued high inflation, and average consumer confidence. The University of Michigan Consumer Confidence Index for 2023 is 65.3%, above the 2022 lows but not yet high by historical standards. Yield curve inversion (negative difference between 10-year and 2-year US Treasury bond yields) continues to persist, which means a recession is still possible within 12 months.

At the same time, the labor market continues to have an excess of the number of vacancies over the number of unemployed. The number of vacancies in September 2023 amounted to 9.55 million, one and a half times higher than the number of unemployed in that month – 6.36 million.

The number of the employed increased from 158,593 thousand in October 2022 to 161,570 thousand. The unemployment rate amounted to 3.9% in October, but continues to be low by historical standards. The employment-to-population ratio of 60.2% is still below the pre-crisis level (61.1%).

An overheated labor market allows hired workers to seek more favorable working conditions. Mass strikes that began in the summer of 2023 have led to improved labor conditions in sectors such as entertainment and automobile manufacturing. Under four-year agreements between automakers and the United Auto Workers (UAW), workers' wages will increase by 10 percent immediately after the agreement is signed and up to 30 percent by the end of the agreement period. Some employers did not wait for strikes and signed new agreements with trade unions before they started. Overall, the risk of mass strikes still remains. Simultaneously, many employees prefer to improve the intangible conditions of their employment: in 2023, more and more employers faced the reluctance of employees to give up remote work. While in September 2022 there were only 5.2% of remote workers, by October 2023 this number had risen to 10.1%, with another 9.6% working in hybrid mode. The higher the qualification of an employee, the greater the possibility of remote work: among people without a high school diploma there are only 2.3%, among people with higher education 35.9% work remotely or in hybrid mode.

Inflation will continue to be a problem for the US economy in 2024, although it has declined significantly in 2023. The CPI (Consumer Price Index) for the previous 12 months fell from 7.7% in

October 2022 to 3.2% in October 2023. The Core Consumer Price Index (excluding food and energy prices) was 4.0% in October. While all of these indexes have declined from their 2022 highs, they are still noticeably above the Fed's 2% target level.

In an attempt to reach the target level, the Fed continued its monetary tightening cycle in 2023 by raising the benchmark rate to 5.25%-5.5%. This is the highest rate in 22 years. Earlier legislation (the Infrastructure Investment and Jobs Act, the Inflation Reduction Act, and the CHIPS and Science Act) has begun to fully impact the economy, with gross government spending beginning to rise again after being cut in 2022. All these factors make a transition to a loose monetary policy in 2024 unlikely.

The abovementioned economic stimulus programs are already putting additional pressure on the federal budget. The federal budget deficit for fiscal year 2022-2023 totaled \$1.7 trillion, \$320 billion more than the previous year. The tight monetary policy of the past two years has increased the cost of servicing the growing federal debt which has reached a record \$33.8 trillion. The cost of servicing has risen to \$659 billion (38.8% of the total budget deficit), \$184 billion more than the previous period (\$475 billion or 34.4% of the total deficit). If the current Fed policy continues, there is a risk of further growth in both the debt itself and the cost of servicing it.

The US housing market, despite high mortgage costs, showed growth of 3.9% in the 3rd quarter of 2023. The number of new houses started in September 2023 totaled 1.358 million, up 7% from August 2023 but 7.2% below September 2022. Meanwhile, the price of houses rose by 5.6% from August 2022 to August 2023.

The situation in the auto market has improved, with sales of all cars rising to 15 million in 2023 from 14 million in 2022, well below the pre-pandemic level of 17 million. Car prices in October 2023 were down by 4% on a year-on-year basis.

Given stable macroeconomic indicators, the main risk to the US economy in 2024 will be the ability of the federal government to continue to fund the large-scale programs initiated by the Biden administration. This ability will largely depend on two factors, the nature of which is political rather than economic. Primarily, it is how quickly the Fed will return to lowering interest rates. If the widely expected recession occurs in early 2024, this could be a reason to return to low rates. However, there is a possibility that fiscal stimulus will be enough for the economy to avoid a recession again, as already happened in 2023. In this case, the US political leadership may face a choice as early as next year: pursue lower interest rates or cut back on spending. The first would undermine the principle of Fed independence, which many commentators have already questioned, drawing attention to the Fed's essentially reactive policy towards US Treasury borrowing (the situation also called fiscal dominance). In such an outcome, the Fed's ability to conduct effective monetary policy to reduce inflation would be undermined and the price level would start to rise again. A cut in spending would lead to a reduction in fiscal stimulus and, most likely, given the role of government spending in stimulating consumption, to a recession. Finally, there is the purely political factor of partisan infighting, which in May 2023 almost led to the shutdown of funding for the federal government. The lack of a majority for one party in both Houses of Congress creates a high degree of uncertainty in the development of the US economy. We estimate that US GDP will grow by 2.5% in 2024.

## Japan

For the Japanese economy, the year 2023 began with a negative background: expectations were overshadowed by the threat of recession in developed countries, Japan's main partners, against the backdrop of rising interest rates and persistently high inflation, as well as increasing international tensions. However, in a few months the psychological background of business activity began to improve. The world economy, and primarily the United States economy, maintained the impetus for continued growth; the forecasts of international financial institutions were revised upward. Investor optimism on the stock market increased significantly, giving dynamism to the main stock indices. The additional impetus to the growth of stock quotes of Japanese companies was given by the outflow of financial investors from the Chinese market, caused by lowered expectations about its future<sup>9</sup>.

As a result, there were signs of a relatively sustained recovery. For example, private consumer and corporate investment demand revived significantly in the 1st quarter, which led to better-than-expected economic growth in the 1st quarter (2.0% to the same period of the previous year<sup>10</sup>).

Later, however, the momentum began to run out – GDP growth in the 2nd and 3rd quarters (by 1.7% and 1.2%, respectively, compared to the same period of the previous year) was provided almost exclusively by the dynamics of net exports, while consumer spending and private investment showed close to zero, and in the 3rd quarter – negative growth. At the same time, the growth of net exports was largely due to a significant decrease in the yen exchange rate associated with the persistence of very low rates of return on major financial instruments in the national currency and the accompanying outflow of short-term capital.

Inflation, contrary to forecasts, has not declined for a long time after surging in the second half of 2022. Thus, in April, core inflation (excluding food products and fuel) exceeded 4% for the first time in 40 years, and in May-June it remained above 3%. Only by the end of the summer core inflation fell below the 2% benchmark, while the rising cost of imported fuel and foodstuffs throughout the summer ensured the growth of the overall consumer price index by at least 3% in annual terms.

The country's Central Bank (Bank of Japan, BoJ), however, still refuses to see this as a reason to revise its pro-inflationary stimulus policy. Despite the change of the head of the bank-regulator<sup>11</sup>, it continues to adhere to the previous benchmarks in the form of negative rate on Central Bank deposits and zero yield on long-term government liabilities as an instrument of credit cheapening, although it has increased the corridor for possible deviations from the target benchmark. According to the regulator, the rejection or substantial adjustment of the cheap money stimulative policy line should have as its precondition the final transition to the leading role of demand as a driver of sustainable price growth, i.e., from cost inflation to demand inflation. According to the assessment of the BoJ's management, this transition has not yet taken place, and any tightening of monetary policy today would be counterproductive both from the point of view of price dynamics

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<sup>9</sup> For many large funds, Japan is a natural alternative to China as an investment platform.

<sup>10</sup> Hereinafter, the data on the dynamics of GDP and its components are obtained from official publications posted on the website of the Cabinet Office of Japan. (<https://www.esri.cao.go.jp/jp/sna/menu.html>)

<sup>11</sup> After a decade of Haruhiko Kuroda (a confidant of former Prime Minister S. Abe, whose name is associated with the concept of economic policy in the second half of the 2010s) being the Governor of the Bank of Japan, the politically unbiased academic Kazuo Ueda took over the post in April 2023.

benchmarks (2% inflation, excluding the return of the economy to the "deflationary trap") and from the point of view of avoiding recession.

The government's economic team is of a similar opinion. The official position is that the key to achieving an optimal balance between inflation and economic growth is to stimulate wage increases. According to government strategists, this will trigger a self-sustaining economic growth mechanism through a steady expansion of private consumer demand, which has not been achieved in the previous ten years. The government sees the 2023 statistics as the beginning of a positive shift in this direction, but there are serious doubts about the sustainability and durability of the emerging trend of wage growth in the private sector.

The stimulus package of fiscal innovations and additional fiscal spending totaling 17 trillion yen, submitted to the Parliament for approval in November 2023, is intended to help boost household demand and prevent the growth momentum triggered by rising external demand from fading. This should help the government achieve real GDP growth of about 2% in 2024, roughly double the expected 2023 performance. At the same time, the government assumes that the external environment for economic growth will be less favorable than in 2023, both in terms of the business environment and the political climate.

Additional fiscal stimulus should also noticeably increase the government's need for new borrowing, especially against the backdrop of politically inevitable increases in defense spending and growing payments for social programs. This finally pushes the goal of achieving a balanced budget – a long-term goal of former Prime Minister S. Abe's "Japan Revitalization Plan" – beyond the political horizon.

In terms of the content of the economic strategy, 2023 was marked by the de facto abandonment of another key thesis of the "Abenomics" period – high expectations related to the impact of technological innovation on the dynamics of productivity and the need for human resources. The strategy of the current team of government economists is based on the assumption that the tight labor market situation now and in the future is one of the main constraints to the country's development. Accordingly, the budgets for the next and subsequent years should provide for a significant increase in expenditures on training and retraining of labor force and specialists at the expense of the state, as well as on social support, allowing to release additional human resources for economic activity. This should partly help to solve the problem of stimulating income and demand in the short term: the government team has introduced the concept of "structural wage increase", which implies increasing the share of labor as a factor of production in total income through its structural change towards greater value and productivity.

At the same time, a number of other central points of the economic strategy of the second half of the 2010s remain unadjusted. These include, in particular, the active use of public investments and subsidies as a tool to stimulate growth, a positive attitude to the decline in the exchange rate of the national currency, and political support for exports.

At the same time, it is worth noting that in recent years, government presentations of its vision of the future have seen a fundamental shift from the previous criteria of successful development, which were traditionally considered to be GDP growth rates, the "health" of public finances (i.e. deficit-free budget and tightly controlled public debt) and price stability. Recently, the forward-looking targets for all these criteria have been lowered, and the role of these indicators themselves

has clearly weakened. Instead, the themes of long-term sustainability, environmental sustainability and "responsible" development have come to the fore. In particular, this was reflected in the emphasis on such tasks as increasing the active life expectancy and improving its quality, creating environmentally friendly energy, building a new generation of infrastructure, and stimulating regional economies based on local resources. It can be expected that in the coming years this shift in the official development concept will be further consolidated.

## China

Despite the long-awaited lifting of restrictions related to COVID-19, China continues to experience significant economic difficulties. In general, the PRC economy is under pressure from such negative factors as insufficient aggregate demand, long-term negative dynamics in the real estate market and employment, and growing structural imbalances. The youth unemployment rate (aged 16-24) rose sharply to 21.3% in June 2023, after which Beijing suspended publication of data on this indicator.

Continued weak domestic demand is one of the main obstacles to economic growth. Chinese citizens, accustomed to spending less during the pandemic, still limit themselves to buying goods for short-term use. According to the World Bank, household consumption in China is just over 37% of GDP (compared to over 68% of GDP in the US).

In October 2023, the authorities adopted the already traditional autumn stimulus package for the economy. By the decision of the National People's Congress, the country's sovereign debt was increased by 1 trillion yuan (\$137 billion) – from 3% to 3.8% of GDP. Unplanned changes in the parameters of the central budget for the current fiscal year were previously an extremely rare case for Beijing. In particular, it took place during the 2008 global financial crisis, as well as in the pandemic year 2020. According to experts, such a measure indicates the authorities' utmost concern about the possibility of achieving the established indicators of economic growth already by the end of the current year (GDP growth by 5%).

The government will issue treasury bonds for the abovementioned 1 trillion yuan, the proceeds of which will be directed to the provinces hardest hit by natural disasters for disaster recovery and infrastructure rehabilitation.

In order to rapidly ramp up investment in infrastructure construction, provincial governments have been instructed to fully utilize the quotas for issuing special bonds by the end of September 2023 and start issuing bonds against the 2024 quota by the end of this year. According to the Ministry of Finance of the People's Republic of China, provincial governments issued a total of 7 trillion yuan (nearly \$1 trillion) worth of bonds during January-September 2023.

IMF experts believe that the continuing negative dynamics in the real estate sector is the main factor constraining economic growth in China. For example, one of China's largest real estate developers, Country Garden, is currently facing a serious liquidity shortage, which is likely to indicate similar problems for most major real estate developers. In August, Evergrande Group, another industry leader, disclosed that its debts far exceeded the value of its assets and initiated bankruptcy proceedings in the US jurisdiction, after which the company's share price on the Hong Kong Stock Exchange collapsed by 87%.

Increasing financing difficulties are preventing Chinese developers from completing pre-sold homes, which in turn is undermining homebuyer confidence and causing a further downturn in the real estate sector.

Investment in the real estate sector during the first three quarters of 2023 declined by 9.1% on an annualized basis. This was the 19th consecutive month of decline. Real estate sales decreased by 4.6%. The amount of unsold housing rose by 19.7%.

In order to revitalize the real estate market, the government of Guangzhou has taken measures to stimulate mortgage lending: soft loans for the purchase of first homes will now be issued without taking into account the credit history of borrowers. It is likely that in the near future this approach will be followed by other major cities – Beijing, Shanghai and Shenzhen.

In July-August 2023, the State Development and Reform Committee (SDRC) of the PRC adopted a series of measures to support the economy, including increasing the duration of paid leave and extending the electric vehicle purchase incentive program. The People's Bank of China (PBOC) undertook a series of key interest rate cuts to improve liquidity in the financial sector.

According to the Bank for International Settlements, total loans to the non-financial sector in China reached 306.5% of GDP at the end of the 1st quarter of 2023. In comparison, the same indicator in Russia amounted to 119.1%, in Germany – 188.5%, in the United States – 254.4%.

The extremely high level of total debt poses a critical risk to the PRC economy. This includes a huge amount of corporate liabilities, local government debts, and accumulated debt in the real estate sector (including mortgage debt and loans to developers), which is estimated at about 50% of GDP.

The unfavorable situation in the real estate sector, in turn, aggravates the problem of debt of PRC provincial governments due to the reduction of budget revenues from the sale of land use rights (a very important item of their income). Against this background, the implementation of investment programs and timely repayment of debt obligations have been threatened in a number of provinces.

The dynamics of industrial development also remains low. The growth of value added in industry in the first three quarters of 2023 amounted to 4%. In September, the PMI business activity index amounted to 50.2 p., having risen above 50 p. for the first time since March, but in October it fell back to 49.5 p.

As for the situation in foreign trade, according to the General Administration of Customs (GAC) of the People's Republic of China, China's foreign trade turnover in the first 9 months of 2023 decreased by 6.4% in annual terms (including exports – by 5.7%, imports – by 7.5%). Despite the gradual smoothing of the negative dynamics, serious risks remain for China's foreign trade due to the declining global demand and Beijing's confrontational relations with its largest trading partners – the EU and the US.

It seems that due to the measures taken, Beijing will be able to achieve or come as close as possible to the economic growth rate of 5% of GDP planned for 2023. In the first three quarters of this year, GDP growth amounted to 5.1% (4.9% in the 3rd quarter).

Growth prospects for 2024 are estimated by most analysts at 4-4.5% of GDP. Moreover, S&P estimates that if the problems in the real estate sector worsen, China's economic growth rate may slow to 2.9-3% of GDP next year.

It appears that in 2024, the Chinese economy will be under the influence of unfavorable factors such as a gradually collapsing real estate market, high total debt in the economy, sluggish dynamics of industrial production and domestic consumption, rising structural unemployment, slowing global economic growth and continuing tensions in Beijing's relations with the US and the EU.

From 2024 onwards, China's economy is likely to enter a long-term phase of structural slowdown due to the transformation of the basic goal of Beijing's economic policy from maximizing growth performance to achieving self-sufficiency and self-reliance of the national economy.

## India

India's economy in 2023 retained the world's fifth largest GDP (\$3.73 trillion) and 3rd largest PPP GDP (\$13.1 trillion). The country's GDP grew by 6.1% in the 1st quarter of FY 2023-24 and by 7.8% at the end of the 2nd quarter<sup>12</sup>. The Reserve Bank of India forecasts that GDP growth will further slow down slightly and result in a 6.5% growth rate for the year. The slowdown in economic growth may be due to fluctuations in energy and food prices, high interest rates imposed to curb inflation and a general slowdown in the global economy. Overall, the GDP growth trend has approached the pre-COVID level. If this trend continues, the Indian economy could reach \$7 trillion within a decade, surpassing the size of the German and Japanese economies<sup>13</sup>.

In 2024, the main growth driver will remain the services sector, primarily software development (software), business process outsourcing and telecommunications (growth of more than 10% in 2023), and construction (almost 8%). Air transportation will continue to grow and manufacturing will continue its gradual upturn (4.7%). The growth rate of the agricultural sector will depend on the timely arrival of the monsoon, the strength and duration of the spring heat wave, and the level of rainfall. In case weather conditions are unfavorable, the Indian government is likely to extend the ban on exports of milled rice and wheat to avoid the growth of food inflation in the country.

India's trade deficit will remain at the same level or increase. In 2023, there was a gradual decline in exports due to weak external demand and falling prices for oil products. The Modi government's course to intensify the development of certain territories and industries to ensure India's competitiveness in the unfolding system of world trade leads to an increase in demand for high-tech equipment and materials, which can only be satisfied by imports. The Indian government's desire to prevent the country from becoming economically dependent on China forces it to purchase equipment from Western countries and Japan, which leads to a further increase in the trade deficit.

The inflow of investments into the country will increase: India is becoming an attractive market for international investors against the background of China's economic slowdown. The programs developed for this purpose will continue to be implemented: India Investment Grid, Railways Station Redevelopment Program, Startup India Initiative etc. Singapore, the US, the Netherlands, Japan, the UK, Germany and the UAE will remain the leading investors in India. Investments will be mainly concentrated in services (software production, trade) and industry (computer and telecommunication equipment, automotive and chemical industries), as well as in the construction sector<sup>14</sup>.

***Political factors of economic development.*** In the spring of 2024, India will hold national parliamentary elections to determine the party or coalition that will form the government for the next five years. The Bharatiya Janata Party, which is currently in power, will avoid any reforms that could cause discontent among voters; implement social programs at the expense of budgetary funds; and support GDP growth by all possible means until the end of spring 2024. After the elections, regardless of their outcome (but with a higher probability in case of a decisive victory of the BJP), a

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<sup>12</sup> Government of India. Ministry of Statistics and Programme Implementation. Available at: <https://www.mospi.gov.in/dataviz-quarterly-gdp-growth-rates> [Accessed 20/02/24].

<sup>13</sup> India's Economy in 2023: A Year-End Review. Available at: <https://www.india-briefing.com/news/indias-economy-in-2023-a-year-end-review-30561.html> [Accessed 20/02/24].

<sup>14</sup> Exim Bank of India. Useful Economic Data. Available at: <https://www.eximbankindia.in/useful-economic-data> [Accessed 20/02/24].



slowdown in economic growth rates and unpopular decisions may follow, in particular, the second attempt to pass a package of agrarian laws after finalization (the previous one, undertaken in September 2020, ended in mass protests that lasted almost a year and a half and led to the repeal of the acts).

***Economic interaction with the Russian Federation.*** By the end of 2023-24 FY, trade turnover between Russia and India may reach \$60 billion. There is growth in all items of both imports from Russia to India and exports, but the lion's share of growth is in oil supplies. Indian exports of goods to Russia in January-July 2023 amounted to \$2.3 billion, which is almost 60% more than during the same period in the previous year. The key export items were chemical products, engineering products and foodstuffs. Oil exports grew most rapidly: thus, while India imported \$2.2 billion worth of oil from Russia in FY 2021-22, in FY 2022-23 it imported \$31.02 billion worth of oil, and in the first two quarters of FY 2023-24 – \$36.27 billion<sup>15</sup>.

**Table 14. India's main macroeconomic indicators**

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
GDP growth (%)	6.5	3.9	-5.8	9.1	7.2	6.5*
Agricultural growth (%)	2.1	6.2	4.1	3.5	4.0	3.5
Growth of industry (%)	5.3	-1.4	-0.9	11.6	4.4	5.5
Service sector growth (%)	7.2	6.4	-8.2	8.8	9.5	10.3
Exports (billion dollars)	330.1	313.4	291.8	422.0	451.0	
Imports (billion dollars)	514.1	474.7	394.4	613.1	714.0	
FDI in India (billion dollars)	62.0	74.4	82.0	84.8	71.4	
FDI from India (billion dollars)	12.6	13.0	11.0	17.6	14.0	

\* Reserve Bank of India Forecast

Source: <https://www.eximbankindia.in/useful-economic-data#>

In 2023, India has firmly established itself as one of the intermediaries between Russia and Western countries in trade in goods, services and technology, as well as investment. India benefits economically and strengthens its position on the global stage from the current arrangement where Russian energy resources flow to Europe through India and Western technology and finance flows to Russia.

The development of the Indian economy in 2024 will generally be intensive due to the same sectors that have served as drivers of development so far. At the same time, the rates and prospects of

<sup>15</sup> Government of India. Ministry of Commerce and Industry. Available at: <https://tradestat.commerce.gov.in> [Accessed 20/02/24].

economic growth will be significantly influenced by foreign policy factors, the key ones being the ongoing rivalry between the US and China, and the Ukrainian conflict. If the confrontation between China and the United States continues to develop, the Indian leadership expects India to at least partially take China's place in production and trade chains<sup>16</sup>. Western countries interested in realizing this scenario will encourage their companies to relocate their facilities from China to India, facilitate the flow of investment and reduce pressure on New Delhi to lower tariff barriers.

In case the standoff in Ukraine persists and sanctions against Russia are not lifted or strengthened, India will retain its beneficial role as a mediator in a divided world, facilitating the recovery of trade and production chains, with the tacit approval of all sides.

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<sup>16</sup> Amid China outbreaks, India can position itself as manufacturing hub: GTRI. Available at: [https://www.business-standard.com/economy/news/amid-china-outbreaks-india-can-position-itself-as-manufacturing-hub-gtri-123112700711\\_1.html](https://www.business-standard.com/economy/news/amid-china-outbreaks-india-can-position-itself-as-manufacturing-hub-gtri-123112700711_1.html) [Accessed 20/02/24].

## Reliability of the forecast for 2022

The estimates for 2022 forecasts were made at the end of 2021 based on the data available for the first 3 quarters of 2021, i.e. under uncertainty. To quantify the influence of the factors and tendencies that the authors take into account is necessary for forecasting. The estimates made by the IMF in October 2021 and IMEMO RAS in November 2021 deviate slightly from the actual growth rates of the world economy, as shown in Table 15. Comparing said estimates with the GDP growth rates in 2022 which were published by the IMF in October 2023 proves that.

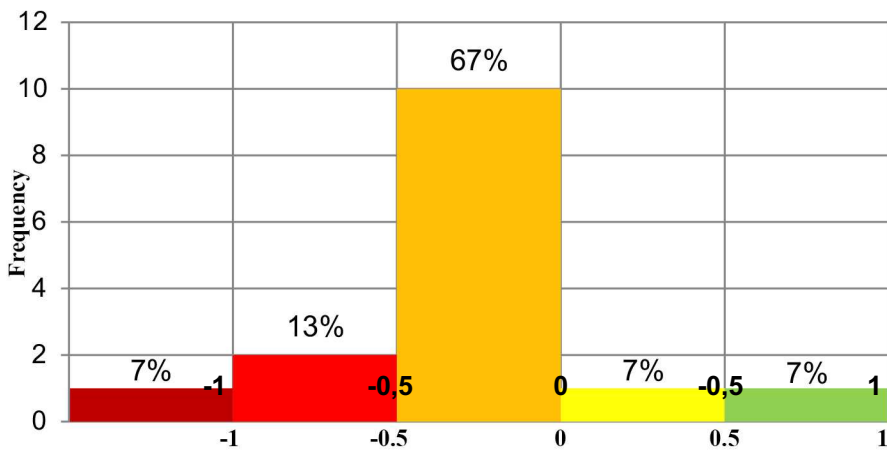
**Table 15. Comparison of GDP growth rate forecasts with actual data for 2022**

	IMF	IMEMO	Actual Data
World	3.2	3.3	3.5
Developed countries	2.4	2.6	2.6
USA	1.6	2.3	2.1
Japan	1.7	1.6	1.0
United Kingdom	3.6	3.9	4.1
Euro area	3.1	3.2	3.3
EU	3.2	3.3	3.6
Germany	1.5	1.7	1.8
France	2.5	2.6	2.5
Italy	3.2	3.8	3.7
Emerging market and developing economies	3.7	3.8	4.1
China	3.2	3.5	3.0
India	6.8	7.5	7.2
Brazil	2.8	2.8	2.9
Russia	-3.4	-2.5	-2.1

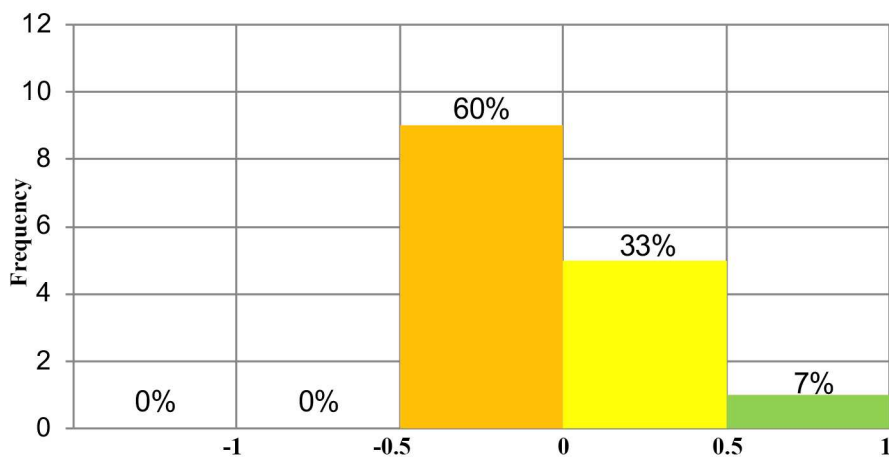
The difference between the estimates and the actual data is evident from the histograms. The x-axis of the histogram displays positive and negative deviations of the estimated values from the actual data, and the y-axis shows how many observations in a dataset fall into each group (see Histograms 1, 2).

The histograms show that both forecasts are rather accurate, with the IMEMO forecast being more accurate. The maximum deviation of IMEMO forecast is 0.6 p.p., whereas the maximum deviation of the IMF forecast is 1.3 p.p.. The minimum deviation of the IMEMO forecast is 0 p.p., that of the IMF forecasts is 0 p.p.. The error interval for 14 IMEMO errors is  $-0.5 - +0.5$ ; and it is  $0 - 1$  for one IMEMO error, as shown in the histograms. The error interval for 11 IMF errors is  $-0.5 - +0.5$ , while for 3 IMF it is  $-1 - +1$ , and only one of the IMF errors is in the  $0 - 1.5$  interval.

**Histogram 1. IMF forecast errors for 2022, %**



**Histogram 2. IMEMO forecast errors for 2022, %**



Data analysis shows that the standard error of the IMEMO forecast is 0.076, while that of the IMF forecast is 0.110. The mean squared error of the IMEMO forecast is 0.08, while that of the IMF forecast is 0.25. The mean absolute error of the IMEMO forecast is 0.23, while that of the IMF forecast is 0.40. Despite the uncertainty of the global economic prospects at the end of 2021, the data given indicates that both forecasts have proven to have a high accuracy level.

**PART III**  
**FOREIGN POLICY**



## UNITED STATES OF AMERICA

### *Domestic policy*

In 2024, social and political life in the United States will be determined by the presidential election.

Traditionally, an incumbent president in the United States has usually won the bid for a second term, even if the rating was below 50%. There have been few exceptions. This made the second party shift a focus toward the next election, putting forward candidates with fewer chances of winning and reserving the candidates the party placed its bet on for the future election year.

However, record polarization created a competitive environment more favorable for rotation. In 2020, the Democrats were determined not to let D. Trump become re-elected, they were not ready to wait for another 4 years – and they got the desired result.

It is too early to say that polarization has finally readjusted the tradition of re-electing the incumbent president. D. Trump's presidency may have been an exception. But the Republicans are approaching the 2024 elections with the same determination as the Democrats in 2020. Judging by the polls, the chances are almost equal – in the wavering states, the gap between D. Trump as the main candidate of the Republican Party and J. Biden is insignificant and constantly changing.

The 2024 election is very likely to take an American voter 4 years back. The same contenders and the same protest voting – citizens in both camps are very likely to vote not for their candidate, but against the opposing candidate. Convinced Democrats, especially left-liberal Democrats, will vote for J. Biden to prevent D. Trump from returning to the White House. Supporters of the Republican Party will face a difficult choice. If right-wing conservatives are quite satisfied with D. Trump, and his base electorate is determined to return him to the White House, moderate Republicans, just as in 2020, will actually be left without a representative, as most of their party's candidates promote a right-wing conservative agenda.

There are two key factors that both determine the outcome of the struggle and make it more unpredictable than usual: the advanced age of J. Biden, which is increasingly evident to the public, and D. Trump's lawsuits. Most Americans, including the President's supporters, believe he is too old to remain in the White House. This sentiment is much more important than his low rating, which is completely normal for an American president at the end of his first term. In fact, only the willingness of the Democratic electorate to prevent the return of D. Trump will be on J. Biden's side. It is still very difficult to predict whether such enthusiasm will be sufficient. But it is obvious that the "Stop Trump and save democracy in America" thesis will be the main one in the Democratic election campaign.

D. Trump's trials will continue throughout the election year, coinciding with almost all key moments of the election campaign. The two main charges – inciting an insurrection and violating the rules for handling classified documents – may end not just with Trump being found guilty, but with his imprisonment. The precedent of a candidate running for president while in prison has already happened in the history of the United States; the US Constitution does not say anything about this, so such a scenario cannot be ruled out.

It is highly likely that the lawsuits will add to the enthusiasm of Trump's electorate and his ratings will rise. But since victory in 2024 depends more on a wavering electorate, most of whom are more likely to be disillusioned with the system than D. Trump's fans, it may be difficult for him to get enough votes.

Finally, an unexpected exit of one or both candidates from the race cannot be ruled out. The exit of D. Trump will greatly increase the chances of victory for the Republicans. With the exit of J. Biden, the Democrats' chances of victory will also be quite high, although it will be difficult for any candidate from the Democratic Party to gain popularity and financial support in the remaining time.

Elections for the US Congress will also be held in 2024, and the outcome will be heavily influenced by the presidential race. In the House of Representatives, Republicans have an 8-seat advantage. All members of the Lower House are up for re-election, with the outcome of 24 electoral races considered unpredictable. Of those, 13 are Republican seats that Democrats hope to gain in Democratic states or states with an emerging trend of increasing Democratic share. But Republicans could also gain 3 seats (in North Carolina).

There are now 51 Democrats in the Senate, which means that if J. Biden wins, the Democrats can afford to lose one seat, since the Vice President has the deciding vote to ensure a majority. In 2024, 33 senators are up for re-election, and the electoral map favors Republicans. If current electoral momentum continues, they could pick up an additional Senate seat. The Democratic Party hopes to secure 50 Senate seats due to Republican seats in Texas and Florida. However, this plan is hardly feasible, as both states are trending toward conservative majorities.

Thus, the likelihood that the Democrats will strengthen their share in the Senate is extremely low. In case of the minimum possible change, they lose one seat, and then the fate of the Senate depends on the result of the presidential election.

Given the unpopularity of both presidential candidates, if there is no national upheaval in 2024, one should expect a minimal change scenario in which:

- with J. Biden's victory, Democrats in the Senate would retain 50 seats and gain a de facto majority through the Vice President's vote, while in the House of Representatives they would gain a fragile majority of about 12 seats;
- D. Trump's victory could give Republicans in the Senate a 51-52 seat majority, while in the House of Representatives they would retain a conservative majority with some realignments but about the same advantage as now – 6-11 seats.

### ***Foreign Policy***

US foreign policy in 2024 will be heavily influenced by domestic political processes and international turbulence.

National elections in 2024 in countries of strategic importance to the US (Taiwan, Russia, India, and possibly Ukraine), as well as the European Parliament, will be a significant factor. Their results will determine the logic of US foreign policy, including confrontation with Russia and China, for the next 4-6 years, depending on the electoral cycle in these countries. Also the results of the elections in the regional leaders – Indonesia, South Africa, Mexico and Venezuela – will be significant.

The dynamics of the Ukrainian and Palestinian-Israeli conflicts, as well as potential escalation on the Taiwan and Iranian tracks, will seriously constrain the maneuverability of the United States next year. Each of them will have an impact on the election campaign in the United States, as the J. Biden administration has not demonstrated effectiveness in achieving foreign policy goals in three years: a catastrophic withdrawal from Afghanistan, re-escalation of the conflict in Ukraine, and an



attack on Israel, a key US ally in the Middle East. The absence of visible foreign policy successes, stagnation or deterioration of the situation in international conflicts of significance for the United States will become a serious weapon in the hands of the Republicans to discredit the Democrats in the election race. The White House's steps to ensure Israel's security will be of paramount importance, since the US has an influential pro-Israeli lobby, a Jewish community of many millions, and tens of millions of evangelicals, for whom this country is of religious significance.

The US regional policy will be determined by the strategic vector of confrontation with China while tactically responding to current challenges in several regions of the world simultaneously.

### ***Strategic competition with China***

As the presidential election approaches, the Biden administration will increase pressure on the Chinese leadership on key issues of trade and political relations, guided by the need to "respond economically to the challenge of China", which will continue to be positioned as the main strategic rival of the United States. Priorities of economic and national security, protection of democratic values and human rights will be prioritized. The positions of the main presidential candidates from both parties, the Biden administration and the US Congress coincide on most of the key policy issues regarding China.

The trade and economic agenda with respect to the PRC will be linked to domestic economic issues. In the absence of a "serious thaw" in relations, the unprecedented intensification of the "coordinated diplomatic offensive" against the PRC leadership will be presented as a window of opportunity, proof that the United States is not in the mood for a complete disengagement with China and is ready to send a signal that it is advisable to "recalibrate" interaction ("compete, not conflict").

In official rhetoric, the United States will adhere to "One China" policy, opposing any unilateral changes to the Taiwan's status quo from either side. It will be reiterated that the US actions are not directed at containing China's economic growth or fuelling a "new Cold war", and on the contrary, are aimed at avoiding confrontation with China with a focus on "responsibly managing the competition"<sup>17</sup>.

The course toward sole technological leadership will be supported through subsidies and tax breaks for domestic industries, as well as the reformatting of supply chains currently tied to China. The first priority is to limit China's progress in supercomputing, microelectronics, quantum technologies, and artificial intelligence. Administrative measures to restrict Chinese companies' access to cloud computing services or sanctions against the aerospace, critical metals and materials, biopharmaceuticals, microelectronics and software industries cannot be ruled out. Any other industries and technologies where China dominates supply chains (steel, coal, plastics, solar panels, car batteries, electric vehicles) could also be affected.

Active measures will be taken to close export control loopholes through a bloc approach, i.e., the formation of international alliances that exclude China's participation in them. A possibility of developing a new multilateral architecture is being explored, which should comprehensively include

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<sup>17</sup> Remarks by President Biden and President Xi Jinping of the People's Republic of China Before Bilateral Meeting. The White House, 15/11/23. Available at: <https://www.whitehouse.gov/briefing-room/speeches-remarks/2023/11/15/remarks-by-president-biden-and-president-xi-jinping-of-the-peoples-republic-of-china-before-bilateral-meeting-woodside-ca/> [Accessed: 25/12/23].

not only export controls, but also outbound investment verification, coordinated supply chain reformatting, and harmonization of industrial strategies<sup>18</sup>.

The Administration will continue to pursue the formation of a "network of alliances and partnerships" of countries that adhere to US human rights and environmental standards. In particular, a possibility of forming a new network to ensure the sustainability of supply chains for critical minerals, semiconductors, and batteries, excluding China, is being explored. Particular attention will be paid to cooperation with Japan, the UK and some developing countries in the Indo-Pacific and African Copperbelt regions.

Washington's intentions to engage Beijing in more active participation in addressing global issues will be limited to areas that are in the US interest: energy security, climate change, health care, and food security. Maintaining ties with the PRC in these areas is considered justified, given that the implementation of Biden's green industrial strategy has faced a steady dependence of the country's manufacturing sector on supplies from China, as well as the growing resistance of American entrepreneurs to his radical environmental initiatives ("greenlash"), which threatens to reduce financial support from oil and gas, automotive and aerospace TNCs in the elections. There is also a growing understanding that, at this stage, it is China that is at the forefront of innovation in clean technology and electric transportation.

The positive agreements with Beijing reached at the current stage mainly concern "keeping communication channels open"<sup>19</sup> in order to avoid "surprises" in bilateral relations. In line with the White House's risk mitigation policy, a mechanism will be utilized to inform the parties in advance about the forthcoming changes in the legal framework of bilateral ties, including in the area of export control and investment activity regulation. Certain expectations are demonstrated with regard to the agenda of the US-China economic and financial working groups established in 2023. The two sides may also begin discussing the terms of an extension of the comprehensive agreement on science and technology.

The Biden administration is unlikely to meet the most radical sentiments<sup>20</sup> of US advocates of domestic manufacturing, who promote a ban on virtually any partnership with Chinese suppliers, including joint ventures and technology licensing agreements. However, any positive change in the US position will be tied to the granting of non-equivalent concessions from Beijing, while counterclaims from the Chinese side could be sabotaged. Washington may continue to blackmail Beijing with threats to revoke MFN status. In the WTO and other IEOs, the US side will favor reforms against non-market economies.

At the same time, Washington's anti-China ambitions will be tempered by fears of Beijing's response actions, in addition to those already announced in 2023 (refusal to place new orders for Boeing airplanes, restrictions on gallium, germanium and graphite exports), which have proved

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<sup>18</sup> Remarks by Secretary of the Treasury Janet L. Yellen on the US-China Economic Relationship. The US Department of Treasury, 14/12/23. Available at: <https://home.treasury.gov/news/press-releases/jy1994> [Accessed: 25/12/23].

<sup>19</sup> Readout of President Joe Biden's Meeting with President Xi Jinping of the People's Republic of China. The White House, 15/11/2023. Available at: <https://www.whitehouse.gov/briefing-room/statements-releases/2023/11/15/readout-of-president-joe-bidens-meeting-with-president-xi-jinping-of-the-peoples-republic-of-china-2/> [Accessed: 25/12/23].

<sup>20</sup> Reset, Prevent, Build: A strategy to Win Economic Competition with the Chinese Communist Party. The Select Committee on the Strategic Competition between the US and the CCP, 12/12/23. Available at: <https://selectcommitteeontheccp.house.gov/sites/evo-subsites/selectcommitteeontheccp.house.gov/files/evo-media-document/reset-prevent-build-scc-report.pdf> [Accessed: 25/12/23].

sensitive for the United States. China will continue to push for the removal of Trump's tariffs, controls on semiconductor exports and investment barriers that impede normal trade cooperation. The concerns of some US allies about the possibility of dividing the world into two opposing trading blocs may also play a role in this process. The need to choose between the US and the PRC does not satisfy many of Washington's partners, given the economic importance of maintaining business ties with both powers.

### ***Relations with European partners***

The year 2024 is important for the development of transatlantic relations. In the run-up to the presidential election, the US and the EU will try to consolidate the results achieved after the crisis period of D. Trump's administration and insure against their probable repetition.

The tense economic environment in both the US and the EU, characterized by high inflation and recession risks that have not been fully overcome, will serve as an additional incentive for cooperation. The parties will continue to cooperate on ensuring economic security, first of all, in order to respond to the challenges posed by China. In particular, activity will continue within the framework of the Trade and Technology Council, whose task is to increase the level of mutual understanding and cooperation between the parties.

The most important task will be, first, to overcome contradictions in the negotiations on the Global Arrangement on Sustainable Steel and Aluminum, which the parties have been considering since 2021. Its purpose is to prevent the risks of introducing new trade duties in this industry. Secondly, it is the Critical Minerals Agreement, which aims to facilitate access to the US market for European exporters of lithium, nickel and other rare earth metals. In turn, the US will try to achieve concessions for its companies within the framework of the European policy of carbon neutrality and existing carbon tariffs (CBAM).

These and a number of other measures to be taken by the parties within the framework of Transatlantic relations are aimed at creating a multiplier effect by means of the American and European markets to solve the problems of trade, technological development and implementation of the achievements of the Fourth Industrial Revolution. In case of success in the negotiations, the Transatlantic relations will be able to reach a new level.

### ***Key regional challenges***

The key region in the US policy to contain China will remain the Asia-Pacific region, where the processes of US-China confrontation have a significant potential for escalation. The US military and economic presence in the region is expected to expand against the backdrop of the PLA modernization and China's military-industrial complex growth. The main trends in US policy will continue to be the increase in US investments, cooperation in the military and non-military spheres, expansion of strategic partnerships and joint drills with Southeast Asian countries<sup>21</sup>. The United States will continue to uphold the principle of freedom of navigation and increase military-political, trade and economic interaction with Taiwan.

The emphasis on jointly countering the China threat implies an increased role for global mechanisms with the US leadership in counterbalancing developing Chinese cooperation projects. For example, the United States will seek to strengthen the role of the IMF and the World Bank to

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<sup>21</sup> National Defense Authorization Act for Fiscal Year 2024. The US Congress, 22/12/23. Available at: <https://www.congress.gov/bill/118th-congress/house-bill/2670/text> [Accessed: 25/12/23].

counter China's non-market practices. The countries' interest in ensuring the security of the East and South China Sea straits and the consolidation of strategic imperatives of Australia, South Korea, and Japan with the United States make them the main allies of the US in the Asia-Pacific region within the framework of US-China competition in the long term. The advancement of regional multilateral formats to a new level will be slow, as they serve as countermeasures to the already existing Chinese projects.

The Middle East will remain another destabilizing and unpredictable area for the United States. Washington will do everything possible to prevent the Palestinian-Israeli conflict from escalating to the regional level. For this purpose, on the one hand, the US will try to restrain the aspirations of part of the Israeli leadership to eradicate threats to its security emanating from the Gaza Strip by brute force. On the other hand, it will continue its efforts to build cooperation between Arab countries on post-conflict assistance to Palestine and the establishment of relations with Israel. In this regard, attempts by Iran to undermine this process cannot be ruled out.

The United States is unlikely to qualitatively change its vector in the Russian direction. The logic of the Ukrainian conflict and the sanctions policy of the United States and its allies will continue to be built within the framework of the goal of exhausting Russia's economic and military-political potential. The escalation of military aid to Kyiv still has the potential for qualitative growth, but will be limited by the split of unity on this issue in the United States. It is unlikely, but cannot be ruled out, that a compromise could be reached on the Ukrainian issue if Russia and the United States decide to resume a dialog on strategic stability in the context of the expiration of the New START treaty in 2025.

The United States continues to pursue a consistent foreign policy in Central Asia, another neighboring region to Russia. The region is receiving increasing attention in terms of promoting US interests as opposed to Chinese as well as Russian interests. The transition of the C5+1 format from ministerial to presidential level in 2023 increases the likelihood of a growing US economic presence in the region in 2024. For Tajikistan and Kyrgyzstan, this will take the form of increased security and health assistance, and, to a lesser extent, stimulating agriculture and economic growth. Uzbekistan and especially Kazakhstan are of more investment than donor interest to the US and its business community. However, the increase in investment and trade is likely to remain narrowly targeted and will not lead to a qualitative change in US economic relations with the region. Increases in democracy and human rights assistance programs are unlikely to be accompanied by sharp critical rhetoric. At the same time, the distribution of funds will change – they will be reduced for Kazakhstan, while the share of Uzbekistan, Kyrgyzstan and Tajikistan will be maintained at the same level or increased.

From a military-political point of view, Central Asia will continue to be of interest in the context of addressing the challenges and threats associated with Afghanistan. The US development of the Enduring Guardian CTO implies coordination with the countries of Central and South Asia<sup>22</sup>. In this context, Tajikistan, Uzbekistan and Turkmenistan are of the greatest importance. The fact that

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<sup>22</sup> Operation Enduring Sentinel, Lead Inspector General Report to the United States Congress. The US Department of Defense, Office of Inspector General, 16/08/23. Available at: <https://www.dodig.mil/Reports/Lead-Inspector-General-Reports/Article/3494991/lead-inspector-general-for-operation-enduring-sentinel-april-1-2023-june-30-2023/> [Accessed: 25/12/23].

Tajikistan is actively involved in interaction with China in this area may attract greater attention from the United States.

Qualitative shifts in US policy toward Afghanistan are unlikely. On the one hand, Washington will not hinder and will probably facilitate the implementation of previous initiatives to establish economic interconnections between Central and South Asia through Afghanistan. At the same time, the expansion of the Chinese or Russian economic presence in Afghanistan will be grounds for imposing sanctions against their projects or contributing to destabilization of the situation in the country to increase the risks of implementation of economic projects of US opponents. Humanitarian aid will be the main priority on the Afghan track. Former funds for assistance to the Afghan national forces and other items of expenditure will be reallocated. In particular, a share of funds will be directed to Ukraine<sup>23</sup>. However, the lack of consensus on this issue means that the initiative may not be adopted in the short term.

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<sup>23</sup> US Security Assistance to Ukraine. Congress Research Service, 9/02/22. Available at: <https://crsreports.congress.gov/product/pdf/IF/IF12040/2> [Accessed: 25/12/23].

## EUROPE

### *Social, economic and political situation in the EU*

In 2024, the dynamics of the EU economy will improve, but will remain rather sluggish. According to the European Commission's estimates, the EU average GDP growth may double the level of 2023, but will amount to only 1.3%. Inflation is forecast to fall to 3.5% along with unemployment remaining fairly high at 6.0%. The main factors that will continue to determine the economic dynamics in 2024 will be instability in the energy sector, persistent inflationary pressures, weak availability of credit capital, lower consumption and lack of strong external demand. Some risks are imposed by the narrowing of government support programs and the continuation of tight monetary policy. In a number of countries, the positive impact will come from the growth of real disposable incomes, which are expected to recover against the backdrop of increased employment and support from the state.

The strongest negative impact of the current crisis in the EU is experienced by the least protected strata of the population; the problems of poverty are aggravated. The emerging trend of declining labor productivity may have long-term consequences, affecting the dynamics of economic growth and, in general, the competitiveness of the European economy. The risks of price hikes and availability of resources for the EU remain, despite certain successes in stabilizing the situation in this area.

A certain "fatigue" from the conflict in Ukraine, already noted in a number of EU countries, aggravated by the difficult socio-economic situation, is likely to continue to grow. Contradictions between member states on the issue of aid to Ukraine, sanctions against Russia and other measures taken on Europe-wide issues, including, in particular, the migration issue, will also persist.

Restoring ties with Russia in the coming year is not considered possible. The level of relations that was established under the sanctions will be maintained. At the same time, the EU has no opportunity to refuse a number of commodity groups imported from Russia and is interested in maintaining supplies. This is especially true for CEE countries: gas for Hungary, oil for Bulgaria, petroleum products for Slovakia and the Czech Republic, and plate steel for the Czech Republic.

All political forces in the EU will intensify their struggle for the support, especially electoral support, of young people, while maintaining their positions in their traditional age, social and ethnic groups of voters. In 2024, the trend towards a tougher electoral struggle, which emerged in 2023, will be maintained and, probably, intensified. Parliamentary elections in Slovakia, Poland and the Netherlands were tough and even aggressive and led to a dramatic change of political course: to populist Eurosceptic center-left (in Slovakia), right-wing (in the Netherlands) and pro-EU liberal-conservative (in Poland). In 2024, parliamentary elections scheduled in 6 EU countries (Austria, Belgium, Lithuania, Portugal, Romania, Croatia) and the UK could lead to significant political changes in at least Austria, Lithuania and Portugal, and the return to power in Britain of Labour Party after a 14-year hiatus. Less significant, although quite important for the medium-term political situation in the EU, will be presidential (in Lithuania, Romania, Slovakia, Finland) and local elections, especially in Poland and Germany.

The transformation of right-wing (sometimes even ultra-right-wing) parties and movements from predominantly populist-protest parties, which are not allowed by traditional center-right and center-left political heavyweights to actually participate in power, into real participants in the

institutionalized political process at the level of regions, countries and the EU as a whole is becoming a trend. Moreover, the leaders of the major European Parliament parties call on their members to unite against the "right-wing expansion", including adopting right-wing propaganda techniques, especially in their work with the youth. Similar calls are being made and even put into practice by the Left. For example, the new German party Reason and Justice which is being created by Sarah Wagenknecht, who quit the Left Party, combines promises of solving energy problems for major companies and social support for households, essentially echoing the rhetoric of the far-right Alternative for Germany. According to polls, about 30% of voters could vote for Wagenknecht's party.

### ***European Parliament elections***

The preparation and results of national elections will largely determine the composition and dominant political orientation of the new European Parliament, which will have to take vital decisions on EU reform, enlargement, foreign, defense and migration policy. First of all, this refers to proposals to revise the EU treaties, including the transition in the EU Council from the principle of unanimity to a qualified majority; reducing the number of members of the European Commission equal to the number of countries (now 27) to 15 with rotation of country representatives; granting the European Parliament the full right of legislative initiative and co-authorship of the EU budget; expanding the current general powers of the EU (in the ecology, energy, foreign policy and defense); sharing with the EU the current exclusive powers of the countries (in health care, education etc.).

The implementation of these proposals is fraught with serious curtailment of the sovereignty of member states, especially new and small ones. The ruling and main opposition parties in Hungary, Poland, the Netherlands, Sweden and other states have already expressed their opposition. It is likely that many newly elected MEPs will not support the general federalization line of their factions in the European Parliament, defending national interests.

Elections to the European Parliament are scheduled for June 6-9, 2024. They will be the jubilee, tenth in number, and the first after the withdrawal of Great Britain from the European Union. In September 2023, the European Council decided to increase the size of the future EP to 720 deputies. Along with the quantitative changes, amendments have been made to the voting procedure. Back in June 2018, ahead of the 2019 European Parliament elections, the European Council agreed to introduce a mandatory 2% barrier for countries whose quota exceeds 35 seats (Germany, Spain, Italy, Poland and France) in order to avoid excessive party-political fragmentation of the EU, as well as to prevent possible attempts of simultaneous voting in several member states. However, Spain and Cyprus have not yet ratified these amendments to the European electoral law, and Germany only managed to do it in the summer of 2023. In the case of Spain, this will be largely difficult to do, given the influence of small left-wing political parties and regional nationalists.

The European Council has not yet agreed on a draft law on the EP elections on two lists: 28 candidates on a Europe-wide list, which can be seen as another step towards the formation of European parties, and the rest on a national list, with gender equality. However, many political parties, especially far-right parties, do not want to go to the EP elections with a single list. The center-right European People's Party, the European Green Party, and the Party of the European Left declared an informal decision to announce their main candidate for the EP elections in 2024. The

European Conservatives and Reformists Party and the right-wing Eurosceptic Party of Identity and Democracy refused to take such a step.

Disagreements also persist regarding the uniform voting age – from 18 years old, which puts the member states in an obviously unequal position, given the generational differences in the ideological and political preferences of the electorate and the compulsory nature of participation in the elections in Belgium (23 seats) and Greece (21 seats). In fact, other national differences in the elections to the European Parliament (the possibility to vote in advance, by mail or online, vote counting formulas and others) remain. Obviously, the task of forming common rules of voting in elections to the European Parliament will be included in the work agenda of the new EP 2024-2029.

The elections may bring unpleasant surprises, given the difficult political and socio-economic situation in the European Union, the growing divisions in societies and elites due to the conflicts in the Middle East and Ukraine. The issues of negative consequences of the energy crisis caused by the breakdown of trade and economic ties with Russia, cooperation and technological confrontation with China, the EU's climate strategy in the conditions of extremely warm weather and natural fires in the summer of 2023, forced Green Transit, and migration crises, which are of concern to the majority of EU citizens, will essentially denationalize the election campaigns. Under these conditions, populist and far-right parties can play on people's fears and anxieties in the face of change, rising prices, tensions along the EU borders and in the world in general, and uncontrolled migration. At the same time, voter confidence in establishment political parties is declining and electoral absenteeism is growing (turnout for European elections is usually lower than for national and local elections). Increasingly, candidates are chosen regardless of their political affiliation. Radical right-wing parties are strongly represented in national parliaments, and their share of seats in Eastern European countries is particularly high (from 23% to 59% at the end of November 2023).

At the same time, it cannot be ruled out that the crisis phenomena, on the contrary, will become an impetus for the electorate to choose national centrist parties that advocate strengthening solidarity in the EU and the EU's position as a global player. The objectives of the European establishment parties are to weaken their opponents, especially right-wing radicals, using anti-Russian and anti-Chinese narratives.

With all the changes in the party-political landscape in the EU, opinion polls nevertheless predict that the centrist majority in the European Parliament will be maintained in the 2024 elections.

### ***Germany***

In 2024, the European Commission estimates that Germany's GDP growth could reach just 0.8%, but with lower inflation of 3.1% and unemployment of 3.2%. The German economy will continue to be negatively impacted by the denial of energy supplies from Russia and the conflict in Ukraine.

Meanwhile, the main blame for this will be placed on the Russian Federation, on the previous governments that fell into energy dependence on Moscow, as well as on the current ruling coalition. The population is dissatisfied with economic difficulties and the coalition's lack of a coherent foreign policy and economic strategy. There is a split in public opinion on the most important issues (arms supplies to Ukraine, relations with China, environmental measures, etc.)<sup>24</sup>. This will not lead

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<sup>24</sup> Maria V. Khorolskaya (2023). Changes in the German Political Landscape after the Outbreak of the Conflict in Ukraine: Challenges for Russia. *Analysis and Forecasting*, IMEMO Journal, no. 2, p. 82.



to a serious crisis, but will cause a low rating of the government, as a significant part of the electorate will not support any of the decisions taken.

The rating of the traffic light coalition (Social Democratic Party of Germany, Alliance 90/Greens, Free Democratic Party) will remain low. Landtag elections in the east of the country will show high results for the right-wing Alternative for Germany and the new left-wing party Sarah Wagenknecht's Alliance. This will seriously hamper coalition formation in these states.

The risk of the Free Democratic Party leaving the ruling coalition and, consequently, the dissolution of the government is unlikely but not excluded. Contradictions in the coalition will prevent Berlin from developing a new domestic and foreign policy strategy or launching serious socio-economic reforms. The lack of a clear strategy will increase dissatisfaction with the government.

In connection with the conflict in the Middle East, contradictions between political elites publicly supporting Israel and ethnic Arabs living in Germany who are in favor of Palestine will manifest themselves. This will not lead to a serious destabilization of the political situation, but it will be another argument in favor of a tougher migration policy in 2024. Meanwhile, in parallel, policy measures will be developed to attract foreign labor to the country.

In 2024, Germany will continue to strengthen its defense capabilities. To ensure its security, Berlin will rely more on NATO than on the concept of European autonomy, including prioritizing US military purchases over European projects<sup>25</sup>. All this will lead to a strengthening of Transatlantic ties and complicate relations in the Franco-German tandem. A new coalition coming to power in Poland will lead to a temporary improvement in relations between Berlin and Warsaw.

Germany will seek, on the one hand, to maintain economic ties with China, and on the other hand, to work on diversifying Chinese supplies (rare earth metals) and investments in the PRC (according to the China+1 formula). The problem of exporting Chinese electric cars to the EU may become a conflict issue.

Fatigue with the Ukrainian conflict will increase in German society. However, Germany will not give up its aid to Kyiv, because its termination will cause even greater protests. Military aid to Ukraine and arms deliveries will be maintained and even slightly increased. Reception and integration, especially employment of Ukrainian refugees will continue to be positively assessed by a significant part of the German society<sup>26</sup> and political elites.

Berlin will support a peaceful settlement of the Ukrainian conflict, but only if Kyiv takes the appropriate initiative. German elites will not initiate a negotiation process or a freeze for fear of being accused of supporting Moscow. At the same time, Germany will not actively support Ukraine's accession to the EU and NATO, but will not openly oppose it either.

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<sup>25</sup> Sondervermögen: Bundeswehr kann 35 F-35A für rund 8,3 Milliarden Euro kaufen. Bundesministerium der Verteidigung. Available at: <https://www.bmvg.de/de/aktuelles/bundeswehr-kann-35-f-35a-fuer-rund-8-3-milliarden-euro-kaufen-5540934#:~:text=Erster%20Abschnitt%20des%20ArtikelsBundeswehr%20kauft,Tornado%20für%20die%20Bundeswehr%20vorzubereiten> [Accessed 20/02/24]; Luftverteidigungssystem Arrow 3: Deutschland und Israel kooperieren // Bundesministerium der Verteidigung. Available at: <https://www.bmvg.de/de/aktuelles/luftverteidigung-deutschland-beschafft-arrow-3-in-israel-5684690> [Accessed 20/02/24].

<sup>26</sup> ARD-DeutschlandTREND Februar 2023. Repräsentative Studie im Auftrag der ARD. Infratest dimap. Available at: <https://www.infratest-dimap.de/umfragen-analysen/bundesweit/ard-deutschlandtrend/2023/februar> [Accessed 20/02/24].

Germany will not take active steps to improve relations with Russia in the coming year. Improvement will become possible some time after the conflict freeze/resolution.

### ***France***

According to the European Commission estimates, in 2024 the dynamics of the French economy will improve compared to 2023, but will be slightly weaker than the EU average. GDP growth is expected to be 1.2% with inflation at 3.0% and unemployment at 7.4%. The draft budget for 2024 aims to reduce public debt, curb inflation and support the energy transition. In particular, there are plans to introduce a tax on the income of companies that build non-ecological transportation infrastructure. Social tensions remain high. Large-scale protests against pension reform have taken place in the country. Acute protests erupt on ethnic and religious grounds. At the same time, not only French people of Arab origin – descendants of immigrants – but also native French people of left-wing views take part in the riots. A powerful wave of anti-Israeli protests involving the extreme left was triggered by the Middle East conflict, which was opposed by the country's main political forces and the government. It is no coincidence that the draft budget for 2024 includes 5 billion euros to support the army, police and justice system.

President Macron is using the Summer Olympics in Paris to strengthen his declining rating (to 31% in September 2023). Overall, against a generally tense socio-economic and military-political backdrop, many European leaders and EU elites hope that the 2024 Olympics will have a positive impact on public sentiment.

The actions of Macron's government, which does not have an absolute majority in the National Assembly, are complicated by the right-wing and left-wing opposition. The fate of the ruling centrist Renaissance party is unclear. In the European Parliament elections, Macron and his supporters, as well as the opposition, will try to consolidate their electorate in anticipation of the 2027 presidential and parliamentary elections. All parties are likely to begin discussions on nominating new leaders. The Republicans, once the system's leading party, is in a difficult position, sandwiched between the far right and the Macron team, the Renaissance's only major ally in Parliament. But as 2027 approaches, it will need to distance itself from Macron to avoid being held responsible for the failures of his policies. Under these conditions, there is no talk of any national unity among the systemic forces.

Paris's foreign policy in 2024 will be aimed at finding solutions that can preserve France's position in the world in the context of the current international shifts fraught with a decline in the EU's influence as a center of power. In the Ukrainian conflict, Paris will continue to support Kyiv: the costs of the crisis for the French economy are not considered important. Although France is not among the EU and NATO hawks, there is an Atlanticization of its course: support for NATO membership for Finland and Sweden and willingness to allow it for Ukraine, a course to achieve a military budget of 2% of GDP for 2025. Even far-right and far-left parties critical of NATO are unlikely to be ready to openly support Moscow as long as the conflict in Ukraine is ongoing. Under these conditions, France cannot be expected to lift sanctions before peace comes to Ukraine. France's attempts to expand its presence in Armenia, as well as in uranium-mining Kazakhstan and Uzbekistan, cannot be ruled out. Yet from 2022 to 2023, the number of French people who are worried about the conflict fell from 92% to 75%. On the issue of military support for Ukraine, a split is emerging: 57% of the French favor military support for Kyiv, while 43% oppose it.

Nevertheless, France is concerned about the fate of the EU strategic autonomy, as the increasing role of the US, Poland and other CEE countries reduces the influence of the Franco-German tandem in Europe. Paris will seek to promote further integration projects: investments in the EU green energy, the European Political Community, and developing relations with Italy and Spain to balance the role of Germany.

France will also have to salvage its presence in Africa and seek a foothold in the Indo-Pacific region, supporting US pressure on China but refraining from direct involvement in their confrontation. In the Middle East, France will probably use the next escalation of the Arab-Israeli conflict to return to the region as a mediator. Events in Palestine are of serious concern to the French: they believe that what is happening could cause anti-Semitic actions or friction within France. But there is no simple division into right/left or systemic/anti-systemic. The right and center-left (including the supporters of Macron) tend to support Israel, the extreme left support Palestine, and the supporters of Marine Le Pen and the Greens are neutral on the events.

### ***Poland***

In 2024, Poland's economy will be noticeably more dynamic than in the EU as a whole and its economic leaders – Germany and France. According to the European Commission's forecast, Poland's GDP growth will reach 2.7% with unemployment of 3.8%, albeit with inflation of 6.2%.

For Poland, 2024 will be determined by the continuation of the electoral cycle launched by the parliamentary elections in the fall of 2023. As a result of these elections, the national-conservative Law and Justice Party (PiS), which had ruled since 2015, lost its parliamentary majority to the united opposition led by D. Tusk. In 2024, the country will face local government elections (April) and the European Parliament elections, which will be the last chance for Law and Justice to stay in power. Against this background, the key factor in Poland's development will be the struggle between the incumbent president and the new government. The government will also be opposed by the parliamentary opposition led by PiS, which is likely to become total and will greatly complicate any serious internal reforms for the ruling coalition.

With the return to the Polish political scene of D. Tusk, one of the most experienced and influential politicians in the European Union, one should expect changes in the European direction. The main task for the new government will be to restore relations with Brussels and EU institutions. The restoration of Warsaw's cooperation with Berlin and Paris can be expected both on bilateral tracks and in the trilateral format of the Weimar Triangle. This implies a more active participation of Poland in discussions on the common European agenda, including on further integration and enlargement of the EU. Simultaneously with the normalization of Warsaw's relations with Berlin, cooperation with Hungary and Slovakia (due to their special position towards Russia) is likely to be frozen at the bilateral level, as well as within the Visegrad Group.

In the Ukrainian direction, a rejection of diplomatic amateurism and a serious increase in the coordination of Polish policy with Brussels are to be expected. At the same time, Warsaw will try to take an important role in the negotiations on Ukraine's accession to the EU. Trade and economic problems in relations with Kyiv and, above all, the transit of Ukrainian agricultural products through Polish territory will remain painful for Poland. The Ukrainian issue will also occupy an important place in the domestic political agenda, as in 2023 there emerged a clear trend towards a decrease in Polish support for aid to Ukraine and further reception of Ukrainian refugees. A decrease in the scale of military supplies to Kyiv is also to be expected, both due to the almost

complete exhaustion of the stockpile of Soviet armaments, which Poland has been actively transferring to Ukraine during 2022-2023, and due to the implementation of an ambitious program of modernization and strengthening of the Polish army.

A challenging issue will be the relationship with China. Poland will likely not want to lose the financial benefits of economic ties with Beijing, but it will have to better align its cooperation with Chinese partners with the EU's overall China policy.

### ***United Kingdom: elections amid uncertainty***

In 2024, Britain is forecast by the European Commission to have less dynamic GDP growth than the EU (0.5%) with comparable inflation of 3.6% and lower unemployment of 4.7%. Real disposable incomes have declined over the past few years, citizens are concerned about the state and prospects of the national economy, growing inequality and poverty, the healthcare crisis and degradation of social infrastructure, and continued illegal immigration. According to the polls, 55% of respondents expect the economic situation to worsen in the next 12 months and only 21% expect it to improve<sup>27</sup>. The society considers the government to be the main culprit of the current situation. 80% of citizens are convinced that the government is failing to do its job<sup>28</sup>. The consequences of exiting the European Union are increasingly negatively assessed. In 2024, as part of the election campaign, the government may increase support for households through tax policy, various allowances and compensations or announce the allocation of budgets for certain socially important initiatives.

General parliamentary elections are to be held in the UK no later than January 2025. In 2023, the government under the leadership of Prime Minister Rishi Sunak failed to overcome negative trends and achieve positive changes in the social and economic spheres visible to citizens or increase his own popularity. At the elections, the Conservatives risk losing a significant part of their 350 (out of 650) seats in the House of Commons. Public opinion surveys and the results of local elections held in 2023 demonstrate the weakness of the ruling party. 44% of surveys' respondents plan to vote for the Labor Party, 24% for the Conservatives, 13% for the Liberal Democrats Party, and 9% for the Green Party<sup>29</sup>. The high rating of the Labour Party indicates not so much the popularity of the party itself or its leader, Keir Starmer, but rather the voters' disappointment in the results of many years of Tory activity. In addition, some votes of Scottish electorate may go to the Labour Party as a result of the reputational crisis in the Scottish National Party. With a shortage of standout political leaders and new ideas, and against the backdrop of internal divisions in both leading parties, the election campaign may prove to be complicated and present surprises. Along with the Labour Party's high chances of winning a majority in the House of Commons and forming a government, a shift in voter sentiment and the possibility of a hung Parliament, with neither party gaining an absolute majority cannot be ruled out.

Regardless of the election results, the likelihood of radical changes in domestic and foreign policy remains low. After several years of intra- and inter-party struggles over the UK's exit from the EU, both major political parties are cautious in their election promises, focus on a relatively narrow range of topics and do not propose measures that could significantly change the course of the country again.

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<sup>27</sup> Ipsos Political Monitor, October 2023. Ipsos, 39 p.

<sup>28</sup> Ibid.

<sup>29</sup> Ibid.

In foreign policy, the declared course of unconditional support for Ukraine by representatives of all political forces and tough opposition to Russia is expected to continue. This position does not cause any noticeable disagreement in British society. However, a cautious discussion of alternative strategies may begin in expert and diplomatic circles. Attention to the Ukrainian crisis against the backdrop of the elections is likely to weaken - this topic is unlikely to give an advantage to one of the parties. The UK's strategy will largely depend on US policy and the results of the US presidential elections in 2024.

The Ukrainian crisis was perceived by British political elites as a chance to partially restore relations with European partners. The continuation of the course for further rapprochement with the EU is likely, and it will become even more noticeable if the Labour Party comes to power.

Some new trends have emerged in relations with the PRC. The 2023 update of the Comprehensive Defense and Foreign Policy Review considers China an "era-defining challenge," but states not only the need to defend against potential threats from the CCP, but also to engage China in joint work bilaterally and multilaterally<sup>30</sup>. China is the UK's fourth most important trading partner, with trade between the two countries up by 8.5% in the 12 months up to March 2023 year-on-year. As Foreign Secretary, J. Cleverly visited Beijing in August 2023, and it also signaled an attempt to fulfill the intention stated in the updated review to keep open the possibility of building a constructive and predictable bilateral relationship. In 2024, election-related uncertainties are unlikely to allow the government to focus on developing a long-term strategy of interaction with China, so individual, and not necessarily consistent, steps in this direction can be expected.

The escalation of the situation in the Middle East in the fall of 2023 has provoked sharp reactions in the United Kingdom and is also a factor that could influence the outcome of the upcoming elections. Leaders of both major parties expressed support for Israel, with reservations about the need to respect international humanitarian law and protect civilians. However, this position has increased contradictions, particularly in the Labour Party, which counts on Muslim voters, as well as in society in general. Demonstrations of thousands demanding a halt to military action in the Gaza Strip took place across the country<sup>31</sup>. In turn, the unrest and demonstrations reinforce anti-immigrant sentiments on the right wing of the political spectrum, whose interests some Conservative Party MPs seek to express. The British electoral system limits opportunities for small parties with pronounced extreme right-wing or extreme left-wing positions. Protest sentiments and the demand for significant changes in the country, which were particularly evident in the referendum on EU membership, may affect the positions of the leading parties, but remain largely unrealized, increasing social tensions and creating difficult conditions for the new government that will come to power after the elections.

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<sup>30</sup> UK Government, 2023. Integrated Review Refresh 2023. Responding to a more contested and volatile world. Available at: [https://assets.publishing.service.gov.uk/media/641d72f45155a2000c6ad5d5/11857435\\_NS\\_IR\\_Refresh\\_2023\\_Supply\\_AllPages\\_Revision\\_7\\_WEB\\_PDF.pdf](https://assets.publishing.service.gov.uk/media/641d72f45155a2000c6ad5d5/11857435_NS_IR_Refresh_2023_Supply_AllPages_Revision_7_WEB_PDF.pdf) [Accessed 20/02/24].

<sup>31</sup> Abdul G. (2023). More than 100 pro-Palestine Rallies to Take Place across UK, Say Organisers. *The Guardian*, 18th Nov. Available at: <https://www.theguardian.com/world/2023/nov/18/more-than-100-pro-palestine-rallies-to-take-place-across-uk-say-organisers> [Accessed 20/02/24].

## MIDDLE EAST

### *Conflict dynamics*

In 2024, the Palestinian problem is likely to dominate the international agenda in the Middle East. The degree of its negative impact on public opinion (including outside the region), on elites and on the policies of external forces will depend to a decisive extent on the duration of military operations and the scale of civilian casualties. The duration of the escalating conflict between Israel and the Gaza Strip remains difficult to predict. Israel's stated goals are to destroy the Hamas regime in Gaza<sup>32</sup>, but the prospects for their practical realization are questionable. A wider escalation involving other regional players is unlikely, although it cannot be completely ruled out. The Palestinian issue will inevitably remain at the center of at least the regional and possibly the world agenda. The growing political activity of Middle Eastern states, which are keenly interested in stability and predictability for the sake of implementing their own development strategies, may lead to attempts to de-escalate the conflict with the participation of regional and extra-regional actors, but it is extremely difficult to predict their success<sup>33</sup>.

The conflict in Gaza will have a negative impact on the process of normalization of relations between regional states. Despite this, a number of other trends that characterized the region in previous years are likely to remain relevant.

Thus, the Gulf monarchies, led by Saudi Arabia, will try to maintain détente in relations with Iran<sup>34</sup>. This behavior is motivated not only by their desire to concentrate resources on socio-economic development issues. Prior to the Gaza conflict, Israel was seen by Cooperation Council members as a potential partner that should actively apply military pressure and provide intelligence in deterring Iran. This option is now becoming difficult to realize, although intelligence sharing and highly classified niche cooperation (e.g., in cyber security) cannot be ruled out.

The course towards normalization of relations between the Arab states and Turkey will be maintained. This is facilitated by Turkey's dependence on economic cooperation with the Gulf monarchies, which have become important sponsors against the background of the financial problems of R.T. Erdogan's government, as well as the Arabs' need for alternative suppliers of modern weapons, especially reconnaissance and attack drones.

Other conflicts in the region (Libya, Syria, Yemen) are likely to remain frozen on the horizon of 6-12 months. In Libya, local actors do not have sufficient resources for active offensive actions, and external players are not interested in the resumption of large-scale fighting. In Syria, sporadic clashes and localized military operations are not excluded, as a large number of non-state actors (Kurdish formations, Arab tribes, opposition Islamists, US and pro-Iranian proxies, remnants of ISIS) are active there, but the key players in the conflict (the SAR government, Turkey, the US, Iran) are oriented towards preserving the status quo due to various motives. The dynamics of the Yemeni crisis will depend on the development of Arab-Iranian relations and directly on the

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<sup>32</sup> Dekel U. (2024). To Meet the War's Objectives, Controlling Northern Gaza is Essential. *INSS Insight*, no. 1819, 25th Jan. Available at: <https://www.inss.org.il/publication/north-gaza> [Accessed 21/02/24].

<sup>33</sup> Salem P. (2024). Stabilizing instability: The challenges of Middle East peacebuilding. *Middle East Institute*, 30th May. Available at: <https://www.mei.edu/publications/stabilizing-instability-challenges-middle-east-peacebuilding> [Accessed 21/02/24].

<sup>34</sup> Sheikh M.S. (2023). Exploring the Possibility of a Saudi-Iran Alliance. *Middle East Policy Council*, 24th Mar. Available at: <https://mepc.org/commentary/exploring-possibility-saudi-iran-alliance> [Accessed 21/02/24].

success/failure of the dialog between Saudi Arabia and the Ansar Allah movement (the so-called Houthis).

### ***Domestic political challenges***

The domestic political situation in some states may become more complicated. This is true for those countries where authorized demonstrations in support of Palestinians may turn into demonstrations against the socio-economic policies of governments. Iraq, Yemen, Tunisia and Jordan may face internal challenges. To a lesser extent – Turkey and Egypt, where the level of control by the authorities is quite high. Egypt may be negatively affected by an increase in the flow of refugees from Gaza, which will be contained by Cairo by all means.

Israel is likely to face a deep political crisis in 2024, triggered by the inevitable launching of an investigation into the causes of the Hamas breakout and the inadequate response to it by the military and civilian leadership, as well as the intelligence services. The psychological trauma inflicted on Israeli society by the massacre and capture of more than 200 hostages will remain acute.

On the domestic political scene, a change in the balance of power is almost inevitable. There is a high probability of a change of government and more moderate centrist elements coming to power (at least temporarily), but only after the end of the active phase of hostilities. The cohesion of Israeli society during the war is temporary, and many tensions may come to the fore again after the war is over. The readiness of Israelis for peace talks with the Palestinians seems low due to the extreme painfulness of the events of October 2023 and even greater prioritization of their own security, even at the expense of a long-term settlement. At the same time, the possibility of negotiations cannot be completely ruled out.

In Turkey, an important event on the domestic political agenda will be the local elections scheduled for March 2024<sup>35</sup>. The elections will be the third stage of the struggle for power in the country between the ruling Justice and Development Party (AKP) led by incumbent President R.T. Erdogan and the opposition. It unites several parties, the largest of which is the People's Republican Party (PRP), founded by M.K. Atatürk. The first two phases – presidential and parliamentary elections – were held in 2023 and ended in favor of the AKP and R.T. Erdogan.

The chances of the incumbent authorities to win the local elections are increased by the international political situation, first of all, the aggravation of the Palestinian-Israeli conflict, in which R.T. Erdogan has taken a pro-Palestinian position, which arouses sympathy in wide circles of Turkish society.

In Turkey's foreign policy, the strategy of balancing between traditional ties with Western countries, on the one hand, and expanding cooperation with Russia and Iran, on the other, will remain relevant. At the same time, Ankara will continue its attempts to strengthen its position in the Muslim world, in particular, through further normalization of relations with the Arab states of the Middle East.

In Iran in the short term, the political, economic and social spheres will continue to be affected by such factors as sanctions, social inequality, uneven development of different regions of the country, and the inability to overcome a large number of internal crises. The most expected outcome of the

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<sup>35</sup> 31 Mart yerel seçim takvimi yayımlandı (2023). *TRT Haber*, 1th Dec. Available at: <https://www.trthaber.com/haber/gundem/31-mart-yerel-secim-takvimi-yayimlandi-817236.html> [Accessed 21/02/24].

upcoming parliamentary elections in 2024 is the victory of the supporters of the traditional conservative agenda<sup>36</sup>, who adhere to the classical "revolutionary" approach to state governance.

The implementation of the political line aimed at strengthening the Iranian position in the Middle East will be continued. The presence of the Islamic Revolutionary Guard Corps (IRGC) forces in the Persian Gulf, Iraq, Syria, Lebanon and Afghanistan will be maintained. Active military-technical and ideological support for Iranian allied forces and Shiite communities in Yemen, Palestine, and Western Sahara will be continued.

The normalization of relations between Iran and the Kingdom of Saudi Arabia that began in the spring of 2023, as well as another escalation of Palestinian-Israeli relations, will obviously contribute to the expansion of diplomatic contacts between Iran and the countries of the Persian Gulf, including the continuation and even intensification of trade and economic cooperation with Qatar and the UAE. In addition, maintaining and establishing strategic relations with China, the Russian Federation, India, Central and Latin American countries will remain important foreign policy issues for Iran in 2024.

In general, in the conditions of growing conflict in the world and the region, as well as maintaining a high degree of internal tension within Iran, there are still risks of interference in the domestic affairs of Iran by external actors unfriendly to the Islamic regime (the US, Israel and their allies in the region), which is likely to contribute to even closer attention to them by the Iranian security agencies.

The Gaza crisis will remain a source of tension in the Middle East region in 2024. The US credibility in the Arab world and partially in the Islamic world may suffer as a result of its unambiguous support for Israel. In this regard, in 2024, the US can be expected to intensify its diplomatic efforts, contacts, visits and negotiations in the leading Arab states for which the US remains the main security provider.

The Gulf monarchies and other Arab states may further expand their cooperation with those extra-regional powers that have significant interests in this zone and are capable of using their armed forces to maintain stability there. The attention of regional players will be primarily directed toward China. However, this does not exclude their interest in developing relations with Russia, including in energy, food security, and military and technical cooperation activities.

For Russia, the current situation may become a source of additional challenges. First of all, it involves the spread of the influence of radical ideas, which were boosted by the crisis in the Middle East, to a part of the population of the Islamic regions of the Russian Federation, as well as to migrant workers on Russian territory.

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<sup>36</sup> Likely And Unlikely Scenarios For 2024 Iran Elections (2023). *Iran International*, 10th May. Available at: <https://www.iranintl.com/en/202305103485> [Accessed 21/02/24].



## POST-SOVIET SPACE

In the post-Soviet space under the conditions of geopolitical uncertainty, the competition between global and regional powers will remain fierce. Along with the USA, the EU, NATO and China, such countries as Turkey, Iran, Poland and Romania will demonstrate increasing involvement in the affairs of the post-Soviet states. Political development and international relations in the post-Soviet space will be affected by both internal and external processes and changes against the background of the unfinished conflict in Ukraine and the "sanctions curtain" lowered on Russia by the West.

The Ukrainian crisis will remain the key one, affecting the situation in the entire post-Soviet space (and in the world as a whole). It is in Ukraine that the interests of Russia and Western countries in the sphere of security, as well as in terms of geopolitical reformatting of post-Soviet Eurasia, collide frontally. The outcome of this confrontation will largely determine how post-Soviet Eurasia perceives Russia's role as a guarantor and broker of security in the post-Soviet space and in the broader geopolitical context. The course and outcome of the conflict in Ukraine will also have a serious impact on Moscow's ability to project its influence (including political, diplomatic and soft power) in all sub-regions of post-Soviet Eurasia.

### *Ukraine*

There are several possible scenarios for Ukraine. The inertial scenario assumes the continuation of hostilities with the same intensity, because neither the Ukrainian leadership, which has bet too much on the war in the spring of 2022 with a massive mass media campaign and the formation of a stable "winner discourse" in Ukrainian society, nor Ukraine's allies in the United States, where the next presidential race is beginning, are politically able to recognize the fact that it is impossible to defeat Russia "on the battlefield" and recognize "Putin's victory". This scenario would be most probable if the military resources of Ukraine's allies were not limited (Kyiv simply does not have these resources) for a confrontation of such scale and their fears (not without real grounds) of slipping into an unmanageable escalation of the conflict with Russia.

In the context of the events in the Middle East and the general situation in the world, Kyiv is reasonably concerned about a reduction in Western support. Ukraine, of course, will not be left alone with "Putin's Russia". Political rhetoric about unconditional solidarity, official visits, and certain amounts of financial and military aid will take place. But it is very likely that there will no longer be "unlimited" access to Western support channels. The situation of 2023 cannot be repeated for a number of political reasons, first of all within the US and Western countries. The threat of public opinion and Western governments feeling "fatigue" or "loss of interest" in Ukraine is quite alarming for Kyiv. And then, in order to avoid a catastrophe on the front, it will be impossible to do without some form of freezing the conflict. And the Ukrainian side will have to make concessions, which is also acknowledged by many foreign analysts. However, so far official Kyiv insists on V. Zelensky's peace program with a return to the 1991 borders, which makes this kind of scenario hardly feasible.

A third scenario is also possible – the defeat of a warring party (at this stage, Ukraine). But it probably goes beyond 2024, as the American elite of the Democratic Party cannot allow this to happen before the US presidential elections. In order to avoid a sharp deterioration of prospects in the US presidential campaign, the Democrats will support Kyiv by almost all means, though accompanying this with demands to fight corruption, which, however, also increases their domestic political positions.

### ***Moldova***

High conflict potential will also persist in Moldova. The split between elites and society in the country continues, as demonstrated by the local elections in the fall of 2023, in which the country's ruling Party of Action and Solidarity (PAS) did not perform very convincingly. This is despite the direct persecution of the opposition (Șor Party and Chance Party were not allowed to participate in the elections) and a high degree of control over the country's information space. There is no basic consensus on the vector of development. Despite the resolute course of M. Sandu's government towards rapprochement with the EU and NATO and the European Council's decision to grant Moldova the status of candidate for EU accession (as early as 2022), there is still hesitation in society about the rightness of the course taken, including because of the social costs associated with it. In 2024, M. Sandu and the Moldovan government will continue consistent attempts to finally reorient the Moldovan economy in the Western direction. Contacts with NATO countries, first of all with the USA and Romania, will intensify and external control over the country's power structures will be strengthened. At the same time, the unresolved status of Transnistria and Gagauzia will remain a serious and explosive problem. One cannot rule out a forceful option of resolving the contradictions by the Moldovan government as it modernizes its own power structures or in cooperation with neighboring Ukraine.

### ***Belarus***

Against this background, Belarus will look like an oasis of stability, where, after the constitutional reform, elections to the All-Belarusian People's Assembly and then presidential elections are to take place. It is still not quite clear how effectively the new political structure will work, whether it will have some checks and balances, or whether in the end the whole reform will be limited to the concentration of key powers and control of all branches of power in one decision-making center. A.G. Lukashenko may afford experiments in any case – since the Belarusian opposition abroad is fragmented and competes for Western subsidies. Due to Russia's support, the socio-economic situation in the country will remain relatively stable. The foreign policy vector will be clearly defined to the East, with a focus not only on cooperation with Moscow, but also with Beijing. It can be expected that no breakthrough decisions will be made within the framework of the Russian-Belarusian integration processes in 2024.

### ***Central Asia***

In Central Asia (CA), unresolved border demarcation issues and disputes over water management problems can lead to outbreaks of new interstate violent incidents. In particular, risks related to water scarcity<sup>37</sup> and unresolved issues of water use between CA countries can become a trigger for local conflicts<sup>38</sup>. They may also erupt due to territorial disputes and problems with self-identification of certain peoples of the region (for example, the ethnic groups of Gorno-Badakhshan in Tajikistan). Threats emanating from terrorist groups based in Afghanistan (Al-Qaeda, the Islamic State-Khorasan and others banned in the Russian Federation) and their affiliated sleeper cells in Central Asian countries will remain relevant<sup>39</sup>.

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<sup>37</sup> Vinokurov E. (Ed.) (2023). Efficient Irrigation and Water Conservation in Central Asia. Reports and working papers 23/4. *Almaty: Eurasian Development Bank*, p. 115.

<sup>38</sup> O'Donnell L. (2023). The Water Wars are coming to Central Asia. *Foreign Affairs*, 31th Jul. Available at: <https://foreignpolicy.com/2023/07/31/afghanistan-uzbekistan-water-war-central-asia> [Accessed 17/02/24].

<sup>39</sup> Malysheva D.B. (2023). Hard power of Afghan radical Islamists in Asia. *World Economy and International Relations*, vol. 67, no. 6., p. 106-115. doi: 10.20542/0131-2227-2023-67-6-106-115.

The CA countries will remain committed to a multi-vector strategy and will continue to diversify their foreign policy and foreign economic relations. Politically, the dialog format based on the "C5+1" formula will remain the most relevant, and will provide the framework for discussing the pressing problems of the region and the prospects for positioning Central Asia in international relations with various external forces<sup>40</sup>.

The prospects for serious progress and moreover for the creation of a regional association of the five CA countries in the form of "independent integration" in the analyzed period are practically non-existent. The geopolitical realities of Central Asia dictate other integration options. Eurasian integration (EAEU) together with China's Belt and Road Initiative will retain priority importance in Central Asia, and the pairing of these two projects will give an additional impetus to the region's economic development.

### ***South Caucasus***

International relations and security sphere in the South Caucasus (SC) will develop according to the fundamental changes that took place here in 2023. Their central point is the establishment by Azerbaijan, following its September 19-20 "anti-terrorist operation", of administrative control over the unrecognized Nagorno-Karabakh Republic (NKR), whose authorities have announced the dissolution of its state bodies and the termination of its existence as of January 1, 2024<sup>41</sup>.

At the new stage, after the formal end of the Karabakh conflict, hotbeds of tension may arise due to disputes over the routes of construction of transportation and logistics infrastructure (Zangezur corridor, etc.). Destabilization of the region can also be provoked by the struggle of external forces for political influence on the South Caucasus, for control over the territories and resources of this region<sup>42</sup>.

Although the idea of creating a regional organization that could manage disagreements and promote cooperation is generally welcomed by all SC countries, it is unlikely to be put into practice. The format of a consultative regional platform "3+3", capable of uniting the three Transcaucasian republics (Armenia, Azerbaijan, Georgia) with the three most influential powers in the region (Russia, Turkey, Iran), seems promising in this regard<sup>43</sup>. This negotiation platform could accelerate the unblocking of transport communications, promote closer interstate cooperation, and solve local problems without involving non-regional players. Georgia offers an alternative model of regional integration, i.e., a dialogue in the "3" format without the participation of neighboring states, which is motivated by the situation around Abkhazia and South Ossetia, unacceptable to Tbilisi.

Ensuring security in post-Soviet Eurasia and reducing conflict along the borders will remain an important foreign policy priority for **Russia**. To promote its interests, Russia will rely both on

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<sup>40</sup> Nurgozhaev M. (2023). Central Asia in the Focus of Overlapping Interests. *Rhythm of Eurasia*, 2th Jun. Available at: <https://www.ritmeurasia.org/news--2023-06-02--centralnaja-azija-v-fokuse-pereseekajuschisjsja-interesov-66699> [Accessed 03/12/23].

<sup>41</sup> The Head of Karabakh Signed Decree on the Termination of the Republic's Existence (2023). *RBK*, 28th Sep. Available at: <https://www.rbc.ru/politics/28/09/2023/65151c419a79477ea819223d?ysclid=lt00iqaq267779444> [Accessed 03/12/23].

<sup>42</sup> Malysheva D.B. (2023). Russia and Eurasian Transit Corridors. *Russia and New States of Eurasia*, no. 2, pp. 91-102. doi: 10.20542/2073-4786-2023-2-91-102.

<sup>43</sup> On the Launch of the Consultative Regional Platform 3+3 (2021). *The Ministry of Foreign Affairs of the Russian Federation*, 10th Dec. Available at: <https://www.mid.ru/ru/detail-material-page/1789834/?ysclid=lps14qdr6k976438372> [Accessed 03/12/23].

existing multilateral structures (CSTO, EAEU, CIS, SCO, UN) and emerging alternative formats of international interaction (dialog mechanisms of the Caspian Five, "3+3").

**China** will deepen its trade and economic interaction primarily with the countries of Central Asia and South Caucasus. Considering this region as a sphere of its primary geostrategic and economic interests, within the framework of its long-term Belt and Road Initiative it will focus on further expansion of the transportation infrastructure of these regions and remain the largest exporter of energy resources of Central Asia.

Unlike the EAEU and the Belt and Road Initiative, which focus exclusively on the economic agenda, **Turkey** will focus on the formation of an informational and ideological space of Turkic peoples in CA and SC. Due to the difficult socio-economic situation inside the country, Turkey will not be able to finance large-scale cross-border economic projects. Therefore, it will limit its attention to energy and transportation projects that directly affect its interests, in particular, the Trans-Caspian International Transportation Route (TITR), which will connect China, CA and Europe via Turkey. Azerbaijan and Kazakhstan are also interested in its promotion. These countries, members of the Organization of Turkic States (OTS), as well as Turkmenistan, will be the subject of Turkey's special attention<sup>44</sup>.

Until the presidential elections in *the United States* in late 2024, the Biden administration's policy toward Central Asia and South Caucasus will not undergo significant changes. Given the new international configuration, the United States will try to use the regions of CA and SC in its geopolitical game against Russia and China. Priority will be given to Kazakhstan and Uzbekistan as the largest states in Eurasia. Washington's political activity can also be expected to intensify in Kazakhstan and Armenia, which are seen by the United States as possible agents of Western influence to contain Russia, China and Iran.

Washington will seek to involve Japan in Central Asian politics as a promoter of US interests and a sponsor of US-supervised aid projects for the countries of the region, as well as to stimulate the activity of EU countries in South Caucasus and Central Asia. The US administration may also try to take advantage of the extensive infrastructure of influence created by Turkey to achieve its own goals.

A less likely scenario is that the United States will try to create a hotbed of instability in Central Asia, actually opening a second front against Russia. The danger of this scenario for the US lies in a likely solidarity response from Russia and China and a sharp weakening of US-oriented elite groups in Central Asian countries. The US may be pushed to realize this scenario either by the approaching radical breakthrough in Russia's favor in the course of the conflict in Ukraine, or by prolonging the conflict until the moment that Washington considers the point of maximum weakening of Russia.

**The European Union** will try to use the potential of Central Asia as an alternative to the trade routes and energy market positions lost in Russia. The importance of the South Caucasus region will also be determined mainly by the energy factor. Through the implementation of the key European strategies Global Gateway and Green Deal, the EU intends to coordinate joint actions

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<sup>44</sup> Chang F.K. (2023). The Middle Corridor through Central Asia: Trade and Influence Ambitions. *Foreign Policy Research Institute*, 21th Feb. Available at: <https://www.fpri.org/article/2023/02/the-middle-corridor-through-central-asia-trade-and-influence-ambitions> [Accessed 27/02/23].

with the countries of the region to diversify transit corridors between Europe and Asia<sup>45</sup>. In particular, it is planned to realize the transport and logistics potential of Kazakhstan and Azerbaijan to link the EU strategy Global Gateway with TITR. The convergence of the transport infrastructure of CA countries and Azerbaijan with the Trans-European Transport Network (TEN-T) is projected. The EU plans to finance green projects, cooperate in phytosanitary, veterinary measures and other areas, expand trade, and develop digital interconnectivity<sup>46</sup>.

In the SC region, the EU intends to become more actively involved in peacemaking while blocking Russian sponsorship of the process. Stakes will be placed on the EU observer mission invited by Armenia, as well as Armenia's agreement to accept arms deliveries from France and other EU countries<sup>47</sup>. The economic relations between Azerbaijan and the EU will develop taking into account the fact that the EU has signed a document with Azerbaijan on strategic partnership in the field of energy and on the doubling of Azerbaijani gas imports to the EU by 2027, having allocated a financial aid package of €2 billion to the Republic within the framework of the economic investment plan<sup>48</sup>. However, in political terms, disagreements related to France's participation as an intermediary in the negotiation process between Baku and Yerevan cannot be ruled out: Azerbaijan opposes this, accusing Paris of bias and unbalanced approaches. Azerbaijan will also retain its role as the main logistics center of the South Caucasus.

### ***Specifics of the political situation in the countries of SC and CA***

**Azerbaijan**, as a result of the One Day War for Karabakh in September, managed to achieve a strong domestic political consensus by restoring its territorial integrity and ensuring sovereignty over the entire territory of its state. Azerbaijan's new status as a leading regional center of power is determined by a number of factors: its role as a major energy exporter, the creation of the most combat-ready army in the South Caucasus, the formation of a strong statehood, and the ruling elite's focus on maintaining national sovereignty and pursuing an independent foreign policy. Its effectiveness will largely depend on Azerbaijan's ability to build smooth relations with Russia, Turkey and Iran – the key players currently determining the course of regional events in the South Caucasus.

In **Armenia**, the trend of developing relations with the EU, which has become generally entrenched in public opinion, will overshadow the issues that were cultivated in previous decades as essential components of the national idea – the right of the Armenians of Nagorno-Karabakh to self-determination and international recognition of the Armenian genocide of 1915. Pashinyan's team may make significant political concessions already in 2024 for the sake of concluding a peace treaty with Azerbaijan and establishing full diplomatic relations with Turkey.

Relations with Azerbaijan will be affected by official Yerevan's recognition of Azerbaijan's territorial integrity, including now its Karabakh Economic Region. The ruling elite will try to strengthen Armenia's shaken positions through active cooperation with France, the EU and the US,

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<sup>45</sup> Boltuc S. (2022). European Union and Central Asia discussed interconnectivity and cooperation. *Special Eurasia*, 24th Nov. Available at: <https://www.specialeurasia.com/2022/11/24/european-union-central-asia> [Accessed 07/02/24].

<sup>46</sup> Central Asia's growing importance globally and for the EU, 20/11/22. Available at: [https://www.eeas.europa.eu/eeas/central-asia/s-growing-importance-globally-and-eu\\_en](https://www.eeas.europa.eu/eeas/central-asia/s-growing-importance-globally-and-eu_en) [Accessed 06/02/24].

<sup>47</sup> Petrov A., Nikolaychuk E. (2023). European Union Expands Mission in Armenia. *Vestnik Kavkaza*, 7th Jun. Available at: <https://vestnikavkaza.ru/news/evrosouz-rassiraet-missiu-v-armenii.html> [Accessed 06/02/24].

<sup>48</sup> EU signs deal with Azerbaijan to double gas imports by 2027. *Reuters*, 18/07/22. Available at: <https://www.reuters.com/business/energy/eu-signs-deal-with-azerbaijan-double-gas-imports-by-2027-2022-07-18> [Accessed 06/02/24].

which will bring a certain amount of tension to the international agenda of the South Caucasus. The European observers, who arrived at Armenia's invitation and whose mandate has been limited to two years so far, are seen by Yerevan as a kind of alternative to Russian peacekeepers. They were brought into the region for a five-year term (with a subsequent extension of the mandate for 5 years). In general, official Yerevan, which has shifted responsibility for the tragedy of Nagorno-Karabakh to Russia, can use this unsubstantiated accusation as a pretext for ignoring Russia's interests and granting Western countries maximum favorability in the country's economy. Against the background of the crisis in Russian-Armenian relations, the risk of Armenia's withdrawal from the CSTO persists.

The risk of further military confrontation with Azerbaijan is insignificant, but in case of an unfavorable outcome of peace negotiations, destabilization on the border cannot be ruled out due to Baku's plans to build a transport (Zangezur) corridor through Armenia's Syunik region to connect with Azerbaijan's Nakhichevan exclave bordering Turkey.

In **Georgia**, domestic and foreign policy trends will not change. Although the legal framework and political institutions will ensure a certain level of readiness of the country for further democratic reforms, this process may be slowed down due to tensions between the government and the opposition. In foreign policy, the course towards integration with the EU will remain unchanged, which will be facilitated by the granting of EU candidate status to Georgia by the European Council. The normalization of trade relations with Russia will not affect the political component of Georgian-Russian interaction – it will remain frozen.

As for **Abkhazia** and **South Ossetia**, Russia seeks to fully strengthen close allied relations based on shared history and common cultural and moral values.

In **Kazakhstan**, in domestic policy the ruling elite has set a course for the preservation and consolidation of national unity, which is envisaged in the Concept of Development of the Assembly of the People of Kazakhstan for 2022-2026. National policy will be based on the promotion of interculturalism – the formation of a new national identity based on the citizenship of Kazakhstan. The aim of expanding the sphere of use of the Kazakh language will be realized in the context of the elaboration of the Concept for the development of language policy in the Republic of Kazakhstan until 2029<sup>49</sup>.

On the foreign policy track, Kazakhstan will take a leading position in Central Asia, which will be largely due to the country's chairmanship in the OTS, SCO and CSTO in 2024. Kazakhstan's strategy aimed at turning the country into a major international transportation and logistics hub will be developed. The country's economic ambitions have been reinforced by the awarding of the status of the financial center of the Turkic world to Astana at the 10th summit of the OTS, held on October 3, 2023 in the capital of Kazakhstan.

Although Russia will remain Kazakhstan's main trading partner and strategic ally, Astana will continue to support the West's overall strategy regarding the Ukraine crisis and the sanctions blockade of Russia. Kazakhstan's cooperation with the EU, the US and NATO, which intensified in 2023, will develop, also due to the wide presence of Western capital in the country. With the

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<sup>49</sup> Chebotarev A. (2023). Nationwide Unity in Kazakhstan: In Search of New Approaches. *Rhythm of Eurasia*, 7th May. Available at: <https://www.ritm Eurasia.org/news--2023-05-07--obschenacionalnoe-edinstvo-v-kazahstane-v-poiskah-novyh-podhodov-66173> [Accessed 26/02/24].

aggravation of global contradictions, the attractiveness of Kazakhstan for Western partners will only increase due to its geographical location, and active role in the integration processes in the Turkic world and Central Asia<sup>50</sup>.

In *Uzbekistan*, political risks will be amortized through moderate political reforms, the basis for which has been laid in previous years. In the early presidential elections in July 2023, the incumbent head of state, Sh. Mirziyoyev, won a convincing victory with over 80% of the electoral vote<sup>51</sup>. The necessity to hold early elections was caused by the reform of all branches of power and the change of the balance between them, the desire to avoid a legal conflict between the articles of the old and the new (2023) Basic Law of the Republic. The new version of the Constitution increases the presidential term from five to seven years, while the previous terms are nullified<sup>52</sup>. So, the incumbent President can in fact remain in power for the next 14 years. Uzbekistan's foreign policy will remain stably multi-vector as well.

Although *Kyrgyzstan's* political system is generally regarded as the most democratic in the Central Asian region, it still lacks an acceptable level of stability. Elections or referendums do not guarantee the legitimacy of the transit of power. In the area of foreign policy, the Kyrgyz authorities will continue to prioritize the resolution of the conflict with Tajikistan, which escalated in 2023<sup>53</sup>. The specific feature of this process is that the disputed border problems between Tajikistan and Kyrgyzstan are gradually being resolved without mediators and solely due to the efforts of the heads of the two states. Given the increased attention of external forces to Central Asia, Kyrgyzstan will have a chance to become an important link in the transportation and logistics routes being built in the region.

Tensions between central and regional authorities will remain a serious source of internal political instability in *Tajikistan*, especially in the Gorno-Badakhshan Autonomous Oblast (GBAO), where strong protest sentiments persist. Socio-economic problems, the crime situation, and the transit of drug trafficking will traditionally provoke outbursts of discontent in GBAO. Another challenge is radical Islamist organizations based outside the country, mainly in Afghanistan, as well as associated sleeper cells of extremists in Tajikistan itself<sup>54</sup>.

In the sphere of international relations, Tajikistan will try to diversify its foreign policy contacts, expanding as far as possible the area of cooperation with different countries and regional alliances.

In *Turkmenistan*, under the conditions of the established rigid authoritarian system, the adoption of key decisions will remain the prerogative of the supreme leader. The absolutization of his power will not be affected in any way by the apex political transformations carried out in Turkmenistan in

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<sup>50</sup> Malysheva D.B. (2023). Kazakhstan: Foreign Policy Dilemmas. *International Life*, no. 8, pp. 60-71; Chebotarev A. (2023). Political and Economic Maneuvering of Kazakhstan between China and the European Union. *Turan Press*, 24th May. Available at: <https://turanpress.kz/politika-i-vlast/7376-politiko-ekonomicheskoe-manevrovanie-kazahstana-mezhdu-kitaem-i-evrosoyuzom.html> [Accessed 26/02/24].

<sup>51</sup> Avatkov V., Rozhkova Z. (2023). Changes in the Political System and Presidential Elections in Uzbekistan in 2023. *Russia and the New States of Eurasia*, no. 4, pp. 72-81. doi: 10.20542/2073-4786-2023-4-72-81.

<sup>52</sup> O'zbek Tilida (2023). Deputies Adopted the Law on the New Constitution of Uzbekistan. *Gazeta.UZ*, 10th Mar. Available at: <https://www.gazeta.uz/ru/2023/03/10/constitution> [Accessed 26/02/24].

<sup>53</sup> Urciuolo L. (2022). Kyrgyzstan and Tajikistan: causes and analysis of an endless border dispute. *Special Eurasia*, 29th Sep. Available at: <https://www.specialeurasia.com/2022/09/29/kyrgyzstan-tajikistan-borders> [Accessed 26/02/24].

<sup>54</sup> Solovyev E.G. (ed.) (2024). Post-Soviet States at the Present Stage: Domestic Political Dynamics and the Search for Ways of Development. *MEMO RAS*, pp. 115-121.

2019-2023, which were aimed at creating favorable conditions for a painless and peaceful transit of power – from the father-president to the successor son.

Gurbanguly Berdymukhamedov, who stepped down as President in March 2022 to make way for his son Serdar, has retained enormous powers as Chairman of the People's Council (Khalk Maslakhaty), a body specially created for him. This de facto functioning of two power centers in the Republic is unlikely to undergo any changes. The reference to the neutral status will allow the leadership of Turkmenistan to further exclude external political influences that could threaten the established political order in the country. Under this strategy, Turkmenistan will continue to avoid participation in regional security organizations (CSTO), but representatives of the Republic will attend meetings of those organizations that are of interest to the country. These are the CIS and the SCO. Turkmenistan is also represented as an observer in the Organization of Turkic States initiated by Turkey<sup>55</sup>.

Although Turkey remains Turkmenistan's most significant investor and China remains its main gas buyer, the Republic is increasing its trade and economic turnover with Russia. At the same time, Turkmenistan can afford to ignore threats of sanctions from the West because, unlike a number of other Russian partners and allies, Turkmenistan is practically not tied to oil and gas pipeline projects bypassing Russia that are lobbied by Western corporations. Turkmenistan is particularly attractive for Russia in the context of its decision in July 2023 to join the Agreement on the International North-South Transport Corridor<sup>56</sup>, the importance of which is growing as logistics and trade in the European direction are being closed for the Russian Federation.

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<sup>55</sup> Solovyev E.G. (ed.) (2024). Post-Soviet States at the Present Stage: Domestic Political Dynamics and the Search for Ways of Development. *MEMO RAS*, pp. 122-128.

<sup>56</sup> Turkmenistan Joins North-South Transport Corridor. *Daryo*, 18/07/23. Available at: <https://daryo.uz/ru/2023/07/18/turkmenistan-prisoedinilsa-k-transportnomu-koridoru-severug?ysclid=lt040v4e8j640349901>[Accessed 26/02/24].



## **PACIFIC AND SOUTH ASIA**

The megaregion, encompassing Eastern, Southeastern and Southern Asia, is increasing its influence and weight in the world, drawing on the large economic and military capabilities of its key countries, which are becoming increasingly aware of their political capabilities. Despite the heterogeneity of the societies and states that make up the region, they perceive it as a spatial and strategic unity. Regional self-identification prompts them, along with the natural desire of each country for its own elevation, to seek ways of mutual accommodation and, in some cases, effective cooperation. The contradictory synergy of rivalry and interaction in some cases in recent years has reached the point of severe confrontation, which in general reflects similar global processes. At the same time, the above-mentioned heterogeneity prevents the consolidation of clear dividing lines in this region and provides an opportunity for the realization of different scenarios, as well as the continuation of dialog and interaction between opposing forces.

The previously created platforms and institutions for the organization of such interaction will retain their effectiveness and relevance in the coming years, primarily in the economic sphere. This applies mainly to organizations with a long history and entrenched bureaucratic apparatus (ASEAN, to a lesser extent APEC). At the same time, the global tendency to strengthen "bloc" thinking will hinder the effective functioning of pan-regional or broad-based institutions, torpedo attempts to further unify and liberalize cross-border investment and foreign trade regimes, and serve as a brake on the implementation of broad binding multilateral agreements, including the Comprehensive Regional Economic Partnership (CREP). The informational and diplomatic agenda in this part of the world is likely to be dominated by issues related to the activities of limited security-focused alliances and structures, in particular Quad and AUKUS, as well as bilateral contacts of a similar nature.

In the public field, the shift from the phraseology and thinking associated with the ideas of globalization and the spread of common standards and rules to the priorities of economic and national security and sustainability will continue, which will be reflected in the bureaucratic activity of the governments of the region's states. At the same time, the political and ideological agenda in each of the key countries will retain its traditional features and its own choice of internal and external priorities.

### ***China***

The most important event in Chinese political life will be the presidential election in Taiwan scheduled for January 2024. The outcome of these elections could either increase the likelihood of conflict or, on the contrary, reduce tensions. Polling data from late 2023 predicted the victory of the candidate of the ruling Democratic Progressive Party (DPP), which does not recognize the One China principle and advocates the sovereignty of the island. Taipei's continued pursuit of pragmatic independence, military buildup, and strengthening ties with the United States would signal to Beijing the collapse of hopes for peaceful reunification through negotiations. The continuation of DPP rule will put the mainland authorities in a choice between a military scenario with its attendant costs or preserving peace by losing the prospect of reunification. The election of a DPP candidate does not mean the immediate launch of a military operation. However, a toughening of Beijing's rhetoric toward Taipei and an even more active show of force are inevitable.

The DPP's defeat could set the stage for meaningful political dialog between the parties. Beijing is concerned that the candidate of the mainland-oriented Kuomintang Party has fallen too far behind

his rivals. The victory of the second-place finisher in the polls, the new, little-known Taiwan People's Party, will be a source of political uncertainty in the short term. However, the coming to power of this moderate force would reduce the likelihood of a full-blown crisis between the island and the mainland.

The victory of the DPP candidate is likely to complicate Sino-US relations in the run-up to the US presidential election. Though China and the US have made joint efforts to stabilize relations in the second half of 2023. Rising tensions in the Taiwan Strait after the island's election will force Washington to intensify its demonstrative support for a "democratic ally" in Taipei. There is little doubt that Beijing will interpret these steps sharply negatively as a manifestation of the US containment policy and an attempt to consolidate China's split. Sino-US relations will become even more strained and less predictable.

US presidential candidates in 2024 will compete in criticizing China. This will have a negative impact on the atmosphere of bilateral relations. Slogans of fighting the China threat, vilifying the power of the CCP, and issuing populist ultimatums to Beijing will further erode mutual respect between the PRC and the United States. The US relies on China's restraint, its habitude to outbursts of Sinophobia during election campaigning in the United States. However, against the background of intensifying rivalry between the two countries, this negative factor will undermine efforts to stabilize relations and create conflict prevention mechanisms.

US elites believe that a slowdown in the Chinese economy will make Beijing policies more accommodating. The Chinese leadership is interested in demonstrating strong sustainable economic performance in 2024. This is necessary both to strengthen the optimism of the PRC population and to convince the West of the ineffectiveness of the policy of sanctions and technological restrictions. It is expected that the decisions of the 3rd Plenum of the 20th CCP Central Committee (to be held in late 2023 or early 2024) will present a renewed course of economic reforms aimed at sustaining growth by expanding domestic consumption, stimulating innovation, improving the operating environment for private businesses, and attracting investment.

The West's use of economic mutual dependence as a tool of pressure is having an impact on China's transformation policy. The ruling CCP will continue to integrate support for economic growth with defense of national security. Beijing will increase the degree of autonomy in key technologies emphasizing improving the quality of economic growth.

Expanding cooperation with developing countries is becoming a strategic direction for China. Beijing will actively promote to the outside world the main provisions of the Three Global Initiatives (Development, Security and Civilization) formulated by Xi Jinping in 2021-2023. In sum, these initiatives reveal China's view of the future world order. They are based on the ideas of equality of all countries, inadmissibility of imposing values and political systems, increasing the world community's attention to the problems of development, and recognizing the indivisibility of security.

### ***Japan***

Japan's line in the international arena will be determined by the logic of its domestic political dynamics. Despite signs of a decline in positive expectations regarding the activity and ambitious plans of Prime Minister F. Kishida, the priorities of his socio-economic and foreign policy have been formed and will not change in the coming year. In the social sphere, emphasis will be placed

on targeted support for economically vulnerable families, material stimulation of birth rates, and increased financing of the social assistance system. In economic policy, the main focus will be on security and sustainability, protecting the economy from unfavorable changes in external conditions: price hikes for imported fuel and food, disruptions in the stability of supplies within transnational economic chains, threats to the logistics and information and communication infrastructure. The main lever to stimulate growth will be an attempt to ensure a significant increase in nominal wages, which, according to government economists, will allow the economy to finally get out of the deflationary trap and rely on a stable increase in personal consumption.

The absence of unrealistic tasks in the government agenda and modest expectations of the population create conditions for maintaining relative political stability both within the ruling Liberal Democratic Party and in society as a whole. Despite the inevitable rotation of the government personnel and, possibly, early elections to the lower house of parliament, the figure of the leader, as well as the composition of the ruling coalition, are likely to remain unchanged.

Accordingly, the general orientation and priorities of Japan's foreign policy will not change. In geopolitical terms, the ruling elite in general sees no alternative to the country's current involvement in global contradictions as the main element of the "Asian West", an important regional link in the system of US-centric partnerships and alliances. The rhetoric and ideology of the foreign policy course will continue to be determined by the all-Western mainstream with its emphasis on a "rules-based world order," preventing changes in the global status quo and opposing "authoritarian powers" as the main and irreconcilable opponents. In practice, this is interpreted as the need to support the United States in its confrontation with China and Russia and to elevate Japan within the United States-led association of "like-minded states" acting as the source and guardian of the "rules of the world order".

Against this background, Japan will continue its active participation in all-Western structures and actions: meetings of various levels in the formats of the G7 and NATO Plus, collective schemes of assistance to partners, joint exercises and demonstrations of presence. Simultaneously, such participation will be used to soften or dismantle the remaining part of the formal and informal restrictions on Japan's defense construction and military exports, the development of the military-industrial complex, and the overseas activity of the Japanese Self-Defense Forces.

The main focus will continue to be on the region that Japan considers to be the focus of its own interests – the Indo-Pacific and, within it, the hub of threats and contradictions in Northeast Asia. The intra-elite political consensus determines the focus of Japan's military and diplomatic strategies to contain and neutralize the growth of military capabilities of the DPRK and China, although it does not exclude additional diplomatic efforts to reduce tensions in relations with them. The current Prime Minister has repeatedly stated his readiness for a personal dialog with the leadership of these states in the near future.

Japan's natural ally in the sub-region today is South Korea, which practically predetermines new steps to strengthen coordination between the military, intelligence and diplomatic agencies of these two countries over the next year. At the same time, the uneasy maneuvering around the issue of Beijing-Taipei relations will continue. While solidarizing with the US position on preventing a military change of the status quo in the Taiwan Strait, Japan seeks to avoid turning this issue into an uncontrollable irritant in relations with China. The same can be said about disagreements with China over the status of certain territories and water areas.

As for the acute international conflicts outside the Indo-Pacific region, primarily the Middle East and Russian-Ukrainian conflicts, Tokyo will continue to adhere to the average position of the countries of the West, while trying to avoid excessively dense involvement in these conflicts both in financial and organizational and emotional terms.

Relations with Russia will continue to be viewed as second-order relations, subordinate to the logic of the general orientation of Japan's foreign policy course. At the same time, the current Head of the Cabinet will obviously avoid sharp decisions or actions fraught with total confrontation with the northern neighbor or consolidation of the general course of Russia and China toward a tough confrontation with Japan.

### ***South Korea***

South Korea's foreign policy strategy in 2024 is likely to undergo a significant adjustment, the contours of which have been outlined already in the previous decade, but fully set on the agenda by President Yoon Suk Yeol, who was elected to office in the spring of 2022. The new administration's main diplomatic objective is to transform the country into the world's tenth largest economy and a "global pivotal state" whose interests are not limited to the Korean Peninsula, but include engaging in regional and global problem-solving through "development cooperation diplomacy".

The ideological basis of the updated strategy is respect for political freedoms, peacekeeping at the regional and global levels, and the dominance of the principles of law. Its practical content is associated with the restart of allied relations with the United States. It can be expected that South Korea will become more involved in the work of broad multilateral structures with the participation of the United States, and that it will more consistently follow allied guidelines. In particular, it is to deepen coordination with the United States and Japan in military and military-industrial areas, in cybersecurity, and in combating non-traditional challenges. At the same time, the possibility of a full-fledged trilateral military alliance with the participation of South Korea, which has been discussed in recent years, is unlikely to be realized. Compared to the foreign policy steps of Washington and Tokyo, Seoul's actions are likely to be more balanced and less assertive, reflecting its desire to preserve the possibility of preventing further aggravation of relations with China and Russia even with a higher level of coordination of South Korean foreign policy with the United States.

Another key part of the President's foreign strategy will be the implementation of the New Southern Plus Policy, which will prioritize relations with ASEAN countries. The Yoon Suk Yeol administration has reaffirmed its commitment to continue to implement the 2021-2025 plan for the comprehensive development of South Korea-ASEAN ties within the framework of 110 agreed programs in such areas as politics and security, economy and socio-cultural relations.

First of all, coordination of actions in the security sphere is planned: ensuring the security of shipping, cyberspace, support for peacekeeping efforts and anti-terrorist measures. In the economic sphere, South Korea's government and business are expected to participate in overcoming the consequences of the COVID-19 pandemic, developing digitalization, and solving climate problems. The measures will be aimed at achieving the status of Comprehensive Strategic Partner of ASEAN in the long term.

## ***DPRK***

There are no objective preconditions for significant economic and political changes in the DPRK in the coming period. The probability of positive shifts in inter-Korean relations, as well as in the North's relations with the United States and Japan, is equally low. In the foreseeable future, tensions on the Korean Peninsula will remain high. The DPRK leadership will seek recognition of its nuclear status, continuing to conduct missile launches and possibly atomic weapons tests, expecting to take advantage of the crisis in relations between the Russian Federation and the United States, as well as between China and the United States. At the same time, the situation around the Korean Peninsula will be of a controlled nature and is unlikely to cause a large-scale conflict, as it will remain on the periphery of the strategic interests of the United States and China during the forecast period.

## **Southeast Asia**

The internal political development of the Southeast Asian countries will proceed without serious shocks. Elections at various levels will be held in Cambodia and Indonesia, but radical course changes in these countries are unlikely. The main focus of their domestic political agenda will be the development of high-tech sectors with an emphasis on digital medicine and digital finance, including intensified research on digital currencies of central banks. China and India, which have already launched digital yuan and digital rupee projects, will push Southeast Asian countries towards this. One can expect not only the continuation, but also the intensification of digital support for economic and commercial cooperation projects (e.g., the Greater Mekong Subregion and the East Asian Growth Zone) and the dialog between the state and business. A special focus for Southeast Asian states will be the development of platform economy facilities and their coordination with Chinese digital aggregators. An important priority for all Southeast Asian countries will be to improve the skills of public and private sector employees, including micro, small and medium-sized enterprises, through digital educational tools.

Multilateral economic cooperation among ASEAN countries will focus on developing two areas simultaneously. The first is non-digital ASEAN-wide projects, mainly infrastructure construction, and the willingness of ASEAN countries to finance the development and maintenance of cross-border facilities. The second is the digital support of ASEAN multilateral initiatives. As 2024 will be the last year before the target date for the completion of the ASEAN Economic Community formation, efforts will be focused on the implementation of previously adopted plans.

The Regional Comprehensive Economic Partnership (RCEP) will have a special place in ASEAN policy. In developing this format, ASEAN will pursue two interrelated objectives. On the one hand, ASEAN will link the realization of the RCEP with China's Belt and Road Initiative. This will not be easy, as a number of provisions of the RCEP, such as e-commerce, are in the interests of China to a much greater extent than of Southeast Asian countries. On the other hand, ASEAN will coordinate the implementation of the RCEP with the Indo-Pacific Economic Framework Agreement (IPEF) as the economic basis of the Indo-Pacific project. The Association will have to take into account that cooperation between the IPEF participants takes place in an environment where the dollar becomes an instrument of political pressure. Accordingly, it is reasonable to expect that ASEAN countries will intensify transactions in national currencies (in the Association's terminology, this is called "strengthening payment interconnectivity").

In the area of security, ASEAN will focus on enhancing the effectiveness of its own security system and cooperation in the region, represented by the dialog platforms established by the Association. These include the ASEAN Regional Forum, the ASEAN Defense Ministers' Meeting+8 and the East Asia Summit. Their use will require increased diplomatic skill on behalf of the organizers, given the growing contradictions between the participants of these multilateral formats, primarily the United States and China.

The South China Sea issue will remain the key threat to regional security. At the same time, we can expect a negative impact of Sino-US contradictions in the sphere of trade, industrial and, most importantly, digital ties on the development of individual ASEAN countries and the Association's future plans as an international player.

With dialogue partners, the organization will tend to develop cooperation with China in areas that are in line with the priorities of forming the ASEAN Economic Community by 2025. In relations with other partners, ASEAN will develop mainly instrumental areas, in particular, work to improve competitiveness in the digital sphere. In relations with the Russian Federation, ASEAN will continue to work on the issues outlined in the Comprehensive Plan of Action for the ASEAN-Russia Strategic Partnership 2021-2025, with a focus on strengthening ties in high-tech sectors.

### ***India***

For India, 2023 was a year of stable economic growth, which was a result of the inertia of post COVID-19 recovery growth and the efforts made by the country's leadership to attract foreign capital to new promising sectors of the economy, including as a result of the partial breakdown of the production chains of the PRC and the US due to increased contradictions between them. The conflict in Ukraine played an important role: due to the imposition of anti-Russian sanctions by European countries, a new model of the world economy was formed in which India, along with a number of other countries (China, Turkey, UAE, Singapore), plays the role of an intermediary, ensuring the processing of Russian oil at its refineries and transportation of oil products to Europe. This scheme, in addition to contributing to India's GDP, helps saturate the Indian market with cheap oil products<sup>57</sup>.

At the same time, the N. Modi government continued its course of economic rapprochement with other centers of power, primarily with the United States and its allies (Japan, Taiwan, Israel) and the Persian Gulf monarchies. The most ambitious joint projects have been a large-scale program to establish semiconductor production in India and the India-Mediterranean Economic Corridor project, which involves laying a railroad through Saudi Arabia<sup>58</sup>. So far, however, the first project faces numerous problems (lack of skilled workforce, investments, infrastructure problems), while the second one is not supported by economic calculations and its implementation is doubtful.

At the same time, India now faces a number of domestic strategic challenges: the Modi government's course towards accelerated modernization, emergency retraining of personnel and creation of new industries is beginning to stall; problems in the agricultural sector are worsening, which has already led to a ban on exports of milled rice to prevent a rise in food prices.

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<sup>57</sup> Suhasini Haidar (2023). India leads 'Laundromat' countries buying Russian crude and selling oil products to Europe: report. *TH*, 1th May. Available at: <https://www.thehindu.com/news/national/india-leads-laundromat-countries-buying-russian-crude-and-selling-oil-products-to-europe-report/article66800618.ece> [Accessed 26.02.24].

<sup>58</sup> PM Modi's UAE Visit: India-Middle East-Europe Economic Corridor Takes Shape amid Regional Tensions. *The Times of India*, 14<sup>th</sup> Feb. Available at: <http://timesofindia.indiatimes.com/articleshow/107697312.cms> [Accessed 26.02.24].

The key political event in India in 2024 will be the national elections, following which the winning party or coalition will form the government that will rule India for the next five years. So far, the I.N.D.I.A. pre-election alliance, which includes the most influential opposition parties, has been formed, but the ruling Bharatiya Janata Party (BJP) still enjoys majority support in the northern and central states, according to polls.

Three scenarios seem most likely: the ruling coalition led by the BJP wins an unconditional victory and retains or increases its majority in Parliament; the coalition loses some seats in Parliament, but retains a small majority while losing its freedom of action; the I.N.D.I.A. wins with a small advantage. In the first two scenarios, the foreign policy course will remain the same, but the BJP will face an internal challenge: N. Modi may follow the unofficial party tradition and leave the post of the party head when he reaches the age of 75, but he may also break it by remaining in power. In the latter scenario, much will depend on the balance of forces within the winning coalition: if the Indian National Congress is the clear leader, a number of unfriendly steps toward Moscow and an accelerated drift toward the US and its allies are possible.

In any case, over the next five years, India's foreign policy course will remain broadly unchanged. Its main features include expanding its presence in the Indian Ocean region, Southeast Asia, and the Mediterranean; increasing the military budget and building up the capabilities of the sea and air forces; suspicious attitude to China's expanding presence in the Indian Ocean region and on the line of de facto control; and the desire to effectively use US-China contradictions to solve own problems and gain the status of the world's third economy.





**PART IV**

**IMEMO PUBLICATIONS ON THE KEY TOPICS: 2024**



## **TURN TO THE SOUTH: CHALLENGES AND OPPORTUNITIES FOR RUSSIA AND POST-SOVIET REPUBLICS**

Konstantin V. BOGDANOV, Timur M. KADYRMAMBETOV, Irina Y. KOBRINSKAYA, Boris E. FRUMKIN

In Memory of Alexey Malashenko

The Turn – or pivot – to the South and its potential consequences can be regarded as a valid perspective from a researcher’s point of view as well as a basis for a more comprehensive understanding of the developments and processes in global politics. The future will show how sustainable and significant the Pivot to the South will be as a factor in the ongoing reshaping of the world order. However, even now the scale of the phenomenon – the explosive growth of attention of the world's leading states to the Global South, which in 2022-2023 resulted in a parade of visits and meetings at high and top levels – demonstrates shifts in the discourse and goal-setting of both the world's major actors – the West, Russia, and China, and the representatives of the Global South themselves.

As a working hypothesis, it can be assumed that at this stage *the Global South occurs in the West’s approach not as a prize but as condition sine qua non for success in competition with China and Russia. That is, the North-South axis is becoming a key one in shaping the new West-East balance. This makes Western players partly compelled to strive to prevent or contain and essentially encapsulate the risks and threats emanating from there.* In the modern context, this implies development assistance, as the pandemic has convincingly demonstrated, which is recognized in the UN food security programs and the global green agenda. For China, which has been long investing heavily in the Global South, its presence there is a projection of its growing economic and, lately, political and diplomatic power with an eye to the future.

For Russia, in the current situation, the Global South contains not only real opportunities to overcome isolation, but also, under certain conditions, additional opportunities to strengthen its position, including in the post-Soviet space.

The very definition of Global South (GS) is relatively new (1960s), it emerged as a synonym/alternative to the term Third World and has no rigid and permanent features, except for the obvious non-membership of these states to the Western world. Hence, the recently widespread definition of GS as Non-West. On the world map, the GS stretches from Indo-Pacific Asia to Latin America, with the states located on the African continent occupying a central place in this vast space.

This study considers this particular area of the GS. At the moment, the main efforts of the world's leading actors are focused on Africa, as well as on the Middle East and the Persian Gulf countries – conventionally Africa+. At the same time, unlike the Asian and Latin American parts of the GS, which are more advanced in global and regional processes, Africa retains most of the features characteristic of the Third World, of the Non-West, which put the African continent on the top of the global agenda.

The realities and perception of the GS in the world are inextricably linked to the lower level of socio-economic development at the time of emergence in the 1960s – pre-industrial. Although GS countries have developed unevenly, the gap with the West in technological patterns persists to this

day. Economic growth can pull a state out of the "developing countries" category, as it happened with China, but not necessarily from the GS "field", where countries with sufficiently high economic indicators are important players.

The reason is that apart from economic indicators, most GS states' post-colonial past constitutes a part of their civilization identity and plays an equally important role in terms of belonging to the GS. The memory of it, like an ancestral trauma, long-standing resentments and distrust of the former metropolises and anti-Americanism to a large extent determine the position of many GS states on the most important topical political and economic issues as different from the Western one. On the contrary, it gives certain advantages to Moscow, which is often associated in GS with the Soviet image of a fighter against colonialism. Anti-colonial discourse and narrative – real or imagined – remain a significant political tool in GS countries. Critics in the West refer to Russian policy in Africa as memory diplomacy<sup>59</sup>.

The article by Sergey Lavrov on the eve of his African tour touched upon the topics of reorganization of the world order, the struggle against the colonial thinking of the Global West and manifestations of neo-colonialism. The role of the USSR in helping the countries of the African continent in their struggle for independence was emphasized – the USSR "did not stain itself with the bloody crimes of colonialism"<sup>60</sup>. It is important – and Western experts have written about this – that from the point of view of the South, the Ukrainian conflict is largely perceived as belonging to the Global North and is interpreted as a "confrontation between the normative imperialism" of the United States and Europe and "Russian imperialism" in its near abroad, while the restraint of many Muslim countries in relation to the conflict is explained more by resentment toward the West than by a pro-Russian position in itself<sup>61</sup>.

However, and it is important to keep this in mind, there are differences in the perception of Russia in Africa, not only between states, as shown by the analysis of votes in the UN General Assembly on resolutions related to the conflict in Ukraine, but also between elites, some of whom were educated in the USSR, and society.

### **Africa's position in the context of the Ukrainian crisis**

The political, socio-economic, religious and ethnic diversity of African states, on the one hand, results in high conflictogenicity, and, on the other hand, in weak organizational and institutional ties, compared not only with the West, but also with the Asian part of GS. Hence the pronounced subjectivity of the African countries in world politics and international institutions. In the same paradigm, African states refuse to participate in military blocs: the overwhelming majority of them are members of the Non-Aligned Movement.

Their characteristic lack of unity in their approaches to conflicts was particularly evident during the Ukrainian crisis. In this situation, the GS states – and especially African – found themselves the

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<sup>59</sup> Brzozowski A., Fox B. (2023). How Europe seeks to battle Russia's charm offensive in Africa. *Euractiv*, 16th Mar. Available at: <https://www.euractiv.com/section/global-europe/news/how-europe-seeks-to-battle-russias-charm-offensive-in-africa> [Accessed at 15/03/24].

<sup>60</sup> Lavrov S.V. (2022). The Ministry of Foreign Affairs of the Russian Federation, 22th Jul. Available at: [https://www.mid.ru/ru/press\\_service/vizity-ministra/1823250](https://www.mid.ru/ru/press_service/vizity-ministra/1823250) [Accessed at 15/03/24].

<sup>61</sup> Laruelle M. (2023). Russia at War and the Islamic World. *Ifri*, 30<sup>th</sup> Jan. Available at: <https://www.ifri.org/en/publications/notes-de-lifri/russia-war-and-islamic-world> [Accessed at 15/03/24].

object of the closest attention of both the West and Russia aiming to attract them to their side, first of all, in the voting in the United Nations, as well as on the issue of anti-Russian sanctions.

In terms of economic power, the 25 largest Non-Aligned economies of GS, which includes in particular the 10 Africa+ states (Morocco, Algeria, Israel, Turkey, Qatar, Egypt, South Africa, Nigeria, Saudi Arabia and the UAE), account for 45% of the world's population and their share of world GDP has grown from 11% in 1992 to 18% in 2023, i.e. it is now larger than that of the EU. In this regard, The Economist emphasizes that the most influential force in the world turns out to be not the United States and China, but the numerous countries that have been unwilling to condemn Russia and are guided by their own pragmatic interests. " Caught between America, China and Russia, many countries are determined not to pick sides. ... They seek deals across divides. This transactional approach is reshaping geopolitics"<sup>62</sup>.

GS countries are characterized by a commitment to national interests, rigid pragmatism and a transactional approach to political, trade and economic issues, minilateralism (as opposed to multilateralism) – the use of separate alliances or groupings rather than tying their fate to a single bloc.

In general, the strengthening of the role of small and medium-sized players against the background of deepening crisis phenomena in the processes of globalization and regionalization is noted in various regions of the world. This is also observed in the post-Soviet space, where the new independent states of Eurasia seek multi-vectorism and balance in their relations with Russia, on the one hand, and China (Central Asian states) and/or the West, on the other<sup>63</sup>. And although this phenomenon has become an integral feature of the post-bipolar global landscape as a whole, it has become particularly clear in the current crisis situation.

It is important to note that the African continent as part of the Global South, unlike Pacific Asia (with its Eastern civilizational specificity and closed nature), has not been actively affected by the processes of globalization and regionalization and remains open for economic interaction, including, above all, at the bilateral level. This allows better consideration of the countries' specifics, including ethno-national and religious ones, as well as their needs. For Moscow, Africa+ is also more attractive from a historical and cultural point of view, since in Asia it will always be difficult for Russia to build interaction close in scale and spirit to that in the South and the West<sup>64</sup>.

In the long run, according to Russian economists, the fragmentation of GS with regard to development needs gives more room for aggregation of regional integration projects and platforms and development institutions. Over the past few years, significant progress has been made in establishing regional platforms in Africa and Asia, which increases the variability in trade/investment flows and in expanding the set of reserve currencies. The African Continental Free Trade Area is among the most significant achievements.

Russia could be particularly interested in the potential for a much wider variety of platforms that can be launched by the Global South economies, including the Eurasian entities – the Eurasian

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<sup>62</sup> How to survive a superpower split. *The Economist*, 11/04/23. Available at: <https://www.economist.com/international/2023/04/11/how-to-survive-a-superpower-split> [Accessed at 15/03/24].

<sup>63</sup> Kobrinskaya I. (2020). Russia in World Politics: under the Sign of Pandemic. *Year of the Planet*, Yearbook, Idea Press, p. 112.

<sup>64</sup> Streltsov D., Torkunov A. (2023). Russian Policy of Turning to the East: problems and risks. *World Economy and International Relations*, vol. 67. no. 4. pp. 5–16.

Economic Union (EEU) and the Shanghai Cooperation Organization (SCO). The formation of Global South platforms will increase the potential for the use of national currencies and the de-dollarization of trade and investment in developing countries<sup>65</sup>.

The assessments of the Arab World by the Russian orientalist A.V. Malashenko are extremely useful for estimating the capabilities of the African continent. In the current crisis situation, they are applicable to the entire African area. "It is necessary to exclude a simplistic approach to the Arab world as a homogeneous political, economic and even religious community. These problems should be considered, on the one hand, in the general context of Arab-Russian relations, and on the other hand, from the standpoint of the position of each Arab country separately. ...With the beginning of the Russian special operation and the international sanctions imposed against Russia, the role of Arab countries has increased, as evidenced by the West's efforts to involve these states in the sanctions measures in order to weaken Moscow's influence. Russia's task is to preserve stable ties with them and maintain its authority in the Arab, and more broadly in the Muslim East"<sup>66</sup>.

Western experts also write about the importance of Russia's relations with the Islamic world and the evolution of these relations in the context of the Ukrainian conflict, emphasizing the factor of "internal" Russian Islam. The thesis is formulated that the conflict context has strengthened the role and place of Islam in Russia, and Islamic institutions and the population practicing Islam are perceived by the Russian authorities as the most loyal part of the electorate. It is also concluded that the main regional actors in the Middle East have been able to strengthen their transactional foreign policy and use the conflict to assert their own autonomy in relation to Western actors, so that "a weakened Russia will lead not so much to increased Western influence as to a more multipolar and chaotic world order"<sup>67</sup>.

Alexey V. Malashenko's "cautious parallels" between the Arab world and some post-Soviet states, "primarily the Central Asian states that are members of the EAEU and the SCO, also seem timely and constructive. The attitude of Central Asian countries to Russian actions in Ukraine remains reserved. They are not interested in the emergence of new conflicts. In the context of the Ukrainian conflict, while continuing to pursue a policy of multi-vectorism, these countries are faced with the problem of choosing at least a relatively clear position between the West and solidarity with Russia. And here, like most Arab states, they behave very diplomatically, realizing that Moscow's excessively harsh behavior toward them is practically impossible. For the Arab countries, the Russian-Western confrontation expands the room for maneuvering to maintain the autonomy of their foreign policy"<sup>68</sup>.

### **Pivot to the South**

Given the acuteness and long-term nature of the problems faced by Africa, the challenge to socio-economic security and political stability posed by Africa's problems to the West, as well as the

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<sup>65</sup> World economy. *Valdai Discussion Club*. Available at: <https://ru.valdaiclub.com/programmes/2022/mirovaya-ekonomika> [Accessed 15/03/24].

<sup>66</sup> Malashenko A.V. (2022). Russian-Arab relations against the backdrop of the Ukrainian crisis. *Russia and the New States of Eurasia*, no. 3, p. 93.

<sup>67</sup> Laruelle M. (2023). Russia at War and the Islamic World. *Ifri*, 30<sup>th</sup> Jan. Available at: <https://www.ifri.org/en/publications/notes-de-lifri/russia-war-and-islamic-world> [Accessed at 15/03/24].

<sup>68</sup> Malashenko A.V. (2022). Russian-Arab relations against the backdrop of the Ukrainian crisis. *Russia and the New States of Eurasia*, no. 3, pp. 93- 94.

specific position of the continent's states in the Ukrainian crisis, raising the question of Pivot to the South seems reasonable.

Western attention to the GS became apparent in the mid-2010s, took shape as a trend in 2020-2021, and became strategic by 2023. US Vice President K. Harris, Treasury Secretary J. Yellen, Secretary of State A. Blinken, German Chancellor O. Scholz, French President E. Macron and other top Western officials have visited Africa. During a visit to Africa in May 2023, Scholz reiterated Germany's support for African Union membership in the G20 and a stronger role for Africa in international politics to steer the continent away from rivals such as China<sup>69</sup>. Scholz has already visited Sub-Saharan Africa twice since taking office at the end of 2021. By comparison, A. Merkel has been to Africa only once during her tenure as Chancellor.

At the end of 2021, the European Union launched the Global Gateway strategy to accelerate digital, energy and environmental transformation in emerging and developing countries. Thus, the EU plans to mobilize 300 billion euros by 2027 to support the financing of sustainable and quality infrastructure that meets social and environmental standards. As announced at the European Union-African Union Summit in February 2022, Africa will receive half of this funding, i.e. 150 billion euros.

Unlike China, which exercises its influence in Africa primarily through infrastructure investment, the EU is trying to build a broad political and economic relationship based on trade, investment, aid and technical support from Brussels in exchange for African countries increasing control over irregular migration. For example, the EU has pledged several billion euros – primarily to North African states – to control migration, after the EU redoubled efforts to increase repatriation and address illegal border crossings.

Overall, the EU's Global Gateway strategy is Europe's response to China's One Belt, One Road initiative. The EU will start paying 750 million euros to finance infrastructure projects to African states in 2024. However, these are only small sums compared to the proposals of China or the United States. Washington has promised to invest at least 55 billion dollars in Africa over the next three years and intends to increase bilateral trade with Africa through tariff- and quota-free trade under the Africa Growth and Opportunity Act. However, African diplomats have consistently complained that access to EU funding involves a lot of bureaucracy.

Russia is lagging behind the EU- and China-led campaign for African Union membership in the G20 due to sharp contradictions with the West. The US and Europe also support giving Africa a permanent seat on the UN Security Council. At the same time, there is particular concern in the West that Moscow has managed to gain more political leverage in Africa than its economic and diplomatic investments imply. Whereas EU officials have been growing irritated with China's enhancing economic influence in Sub-Saharan Africa for much of the past decade, they now increasingly perceive Moscow's activities as a threat<sup>70</sup>.

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<sup>69</sup> (2023). Scholz backs African Union bid for G20 seat on second trip to continent. *Euractiv*, 5th may. Available at: <https://www.euractiv.com/section/development-policy/news/scholz-backs-african-union-bid-for-g20-seat-on-second-trip-to-continent> [Accessed at 15/03/24].

<sup>70</sup> Qu'est-ce que la stratégie européenne Global Gateway? *Ministère de l'Europe et des Affaires étrangères*, 23/03/2023. Available at: [https://www.diplomatie.gouv.fr/fr/politique-etrangere-de-la-france/developpement/evenements-et-actualites-sur-le-theme-du-developpement-2023/article/qu-est-ce-que-la-strategie-europeenne-global-gateway](https://www.diplomatie.gouv.fr/fr/politique-etrangere-de-la-france/developpement/evenements-et-actualites-sur-le-theme-du-developpement/2023/article/qu-est-ce-que-la-strategie-europeenne-global-gateway) [Accessed at 15/03/24].

While in the previous five years, according to the official information of the Ministry of Foreign Affairs, Russian Foreign Minister S. Lavrov did not visit the African continent, since the start of the special military operation in Ukraine he has made visits to 15 African countries: Algeria, Egypt, the Republic of Congo, Uganda, Ethiopia, South Africa, Eswatini, Angola, Eritrea, Mali, Mauritania, Sudan, Kenya, Burundi, and Mozambique. Special attention was paid to the development of bilateral relations. Thus, the trade turnover of the Russian Federation with Egypt in 2022 increased by 30% and exceeded 6 billion dollars, and with Algeria – 3 billion dollars. Cooperation is reaching a new level: during the visit of the Algerian President to Russia in June 2023, a package of documents was signed, including a declaration on deepened strategic partnership in trade, economic and political spheres. There are plans to deepen contacts in the defense sphere, including joint military drills<sup>71</sup>.

During S. Lavrov's visits to Africa, the special military operation in Ukraine was the main topic of the talks. He repeatedly said that he appreciated the "objective, measured and balanced" position of his African colleagues. Also, during the visits, the importance of the second Russia-Africa Economic Forum, scheduled for July 2023, was emphasized. At the same time, the Russian Foreign Ministry was concerned that pressure from the United States on African states and threats of sanctions could lead to their refusal to participate in this forum<sup>72</sup>. The goal of the event, declared by the organizers, is to contribute to the strengthening of comprehensive and equal cooperation between Russia and African countries in all its dimensions: politics, security, economy, scientific, technical, cultural and humanitarian spheres.

### **Pivot to the South and the crisis of the world order**

Although the geography of the Global South encompasses Latin America and Asia, the focus of attention of the West and Russia, and from the winter-spring of 2023, of Ukraine, is on Africa+ states. This phenomenon is based on a whole set of reasons and factors, as well as significant differences in the goal-setting of key actors. At the first stage, large-scale migration to Europe, which disrupted the long-standing system of socio-political and ethno-religious balances there became a trigger. However, in 2020, especially against the backdrop of the COVID-19 pandemic, the emerging situation was characterized by a number of researchers as a "crisis of the world order"<sup>73</sup>. Moreover, it is the South, not the North, that proves to be particularly vulnerable to the pandemic, to the global economic recession, to the sharp decline in world prices for hydrocarbons and other commodities – all this against the backdrop of conflicts (in Syria and Libya) and the degradation of the arms control system<sup>74</sup>.

The year 2022 significantly exacerbated the situation – its paradoxical, though probably not long-lasting, result was an increase in the subjectivity and role of states of the Global South. As Western analysts have emphasized, "the disagreements revealed by the conflict in Ukraine are not limited to political disagreements over the conflict itself, but extend to the nature and scope of the

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<sup>71</sup> Russia and Algeria agree on deepening strategic partnership. *RBK*, 15/06/23. Available at: <https://www.rbc.ru/rbcfreenews/648b17959a7947464f97441b?from=materialsonsubject> [Accessed at 15/03/24].

<sup>72</sup> Foreign Ministry of the Russian Federation says US attempts to disrupt summit – Africa. *RBK*, 26/02/23. Available at: <https://www.rbc.ru/rbcfreenews/63fac3c09a79477c26e4dc80> [Accessed at 15/03/24].

<sup>73</sup> Kortunov A.V. (2020). World Order Crisis and the Global South: Report of the Russian International Affairs Council (RIAC). *RIAC*, Report no. 59/2020.

<sup>74</sup> Kortunov A.V. (2020). World Order Crisis and the Global South: Report of the Russian International Affairs Council (RIAC). *RIAC*, Report no. 59/2020.



international order led and guaranteed by the United States. And while the positions of China and Russia are predictable, including the proximity between them, the political choices of the middle powers of Asia and the Middle East are negotiable. They may prove decisive in determining whether polarization [between West and East – Auth.] will deepen or soften into a managed but limited globalism"<sup>75</sup>.

The impact of the increasing role of the states of the Global South, including African states, on the reformatting of the world order is caused by the Ukrainian crisis. At the same time, this trend fits into the trend of renationalization, which has been observed over the past decade, i.e. the increasing influence of small and medium-sized, sometimes peripheral, states in processes, primarily at the regional level, in attempts, often successful, to realize particular interests.

Partly, this can be compared to the influence of limitrophic states, which was noticeable in Central Eastern Europe in the 1990s in the early post-bipolar period. The essential difference is that the latter's goal was to integrate into Western military-political and economic structures and institutions. At this stage, the regions of the Global South are dominated by the desire to preserve sovereignty and autonomy as significant instruments for the realization of national interests.

It can be assumed that the renaissance of the unipolar world that took place against the backdrop of the conflict in Ukraine – the consolidation of the West under the aegis of the United States – will not be sustainable, and the multiple contradictions will eventually return. The new world order is unlikely to be sustainable, and the degree of its lability – if not decisively, then to a large extent – will be determined by the states of the Global South.

### **Goal setting, role and place of Russia and post-Soviet states in the transformation of the Global South**

As mentioned above, in the current situation, the Global South primarily provides Russia with real opportunities to overcome isolation. In the long term, activization in Africa will allow Russia to strengthen its positions not only in the region, but also in the post-Soviet space.

According to Russian experts (A. Kortunov), Russia's role in the transformation of the Global South – in bridging the civilizational gap between the Global North and South – will inevitably be limited, but not necessarily marginal; in all likelihood, this role will be more prominent in the security sphere than in the development one. At the same time, not only the Russian state, but also business has shown considerable interest in Africa.

On March 14, 2023, the international forum "Russia-Africa: Cooperation as a Path to Sustainable Development" was held within the framework of the Russian Business Weeks<sup>76</sup>. According to a survey of Russian business representatives, South Africa and Egypt, as well as Algeria, Morocco, Uganda, Nigeria, Tunisia, Angola, Ethiopia, Tanzania, and Kenya are of the greatest interest to them. And S. Lavrov's recent visits were to South Africa, Algeria, Egypt, Uganda, Ethiopia, Angola, as well as the Republic of Congo, Eswatini, Eritrea, Mali, Mauritania, and Sudan.

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<sup>75</sup> Raine J. (2023). The legacy of the war in Ukraine: will a 'Silk Curtain' fall? *International Institute for Strategic Studies (IISS)*, 31th May. Available at: <https://www.iiss.org/online-analysis/online-analysis/2023/05/the-legacy-of-the-war-in-ukraine-will-a-silk-curtain-fall> [Accessed at 15/03/24].

<sup>76</sup> The preconditions for creating a new system of relations with African countries were discussed at the NRB International Forum. Russian Union of Industrialists and Entrepreneurs, 20/03/23. Available at: <https://rspp.ru/events/news/forum-nrb-mezhdunarodnyy-forum-rossiyaafrika-kooperatsiya-kak-put-k-ustoychivomu-razvitiyu-6418715d76d9f/> [Accessed at 15/03/24].

Business plans to build relations on a bilateral basis and with macro-regional structures. They are counting on the support of governments and work in the format of intergovernmental commissions. Russian business considers Africa to be one of the most promising regions of the world, the next area of active economic growth after the Asia-Pacific Region. Therefore, Africa is now attracting the attention of the world's major players – China, the EU, the US and Russia. Russia, according to A. Shokhin, head of the Russian Union of Industrialists and Entrepreneurs, is a country that is interested in developing cooperation "without regard to geopolitical risks, challenges, restrictions and limitations".

The idea of creating an alternative international system of payments and settlements, announced at the BRICS summit in South Africa, raises high expectations. China, India, and other countries "uncomfortable at least from unilateral sanctions" are interested in such mechanisms.

At this stage and in the future, business circles and experts consider the most promising directions related to the complex of agro-food development, space and digitalization. Egyptian businessmen emphasize the importance of training new personnel in industrial production and export activities. Egypt, with which an agreement on a free trade zone with the EAEU is planned to be signed, also suggests that Russian companies perceive the country as a gateway to Africa, while African companies will perceive Russia as a gateway to EAEU countries<sup>77</sup>.

### **The "Africanization" of global food security**

In the strategic perspective, it is highly likely that the world politics and economy will face the phenomenon of "Africanization" of global problems and their solutions. One of the key and long-term components of these solutions is the creation of a modern economically, socially and climatically sustainable food system in Africa as an important element of the future food world economy.

It is in this region that the main factors of growth in global supply and demand for agri-food products are uniquely combined. Large and relatively inexpensive labor (more than 60% of the able-bodied population is employed in agriculture), land (more than 45% of the world's new lands suitable for agricultural development), water (10% of the world's renewable sources of fresh water) resources; favorable climate with insignificant impact of agricultural production on its changes (only 3% of global greenhouse gas emissions) create the potential for growth in food production and supply. High population growth rates (the total fertility rate is 2.1-2.7 times higher than the world average), even with lagging income dynamics (about 35% of households have an income or consumption level below 1.9 dollars per day), result in a steadily growing demand for food.

The African Development Bank estimates that maximizing Africa's productive potential would provide food for several billion people. However, Africa is currently the weakest link in the global food security system, including in terms of hunger. By 2022, Africa as a whole has 278 million hungry people, or 20.2% of the population. And Africa's share of the world's hungry has reached about 34% – twice its share of the world's population.

Assuming these shares remain constant, the region's share of the world's hungry could reach 50% by 2050 and almost 80% by 2100 – almost 80%. This would inevitably lead to a "great migration" of malnourished African peoples, and not to populous Asia and the distant Americas, but to nearby

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<sup>77</sup> Ibragimov I.E. (2022). Egypt and the EAEU: a new format of economic cooperation. *Russia and New States of Eurasia*, no. 3., pp. 105–119.

Europe, which is gradually losing its indigenous population. According to recent polls, even in relatively affluent North Africa, more than 35% of respondents would like to move to Europe now.

To prevent such an apocalyptic scenario the leaders of Africa, and indeed the world, face a difficult choice: either an extensive increase in food production with all the negative ecoclimatic consequences, or a massive introduction of modern sustainable technological and organizational systems, while maintaining rational agro-food imports and, where necessary, prompt food aid. According to available estimates, full implementation of the second option would require 40-70 billion dollars of public and 80 billion dollars of private investment per year<sup>78</sup>.

Western "development partners of Africa" are unlikely to find such funds, especially given their interest in preserving Africa as a market for basic commodities for their farmers and supporting export-oriented production of "niche" products for the global food market, primarily unprocessed cocoa beans, coffee, etc. The West focuses on partnership in the mining, energy, infrastructure, information and communication sectors, including within the framework of intensifying global competition with China. Thus, within the framework of the EU's Global Gateway strategy, the European Investment Bank has allocated loans to the agricultural sector for only 0.5 billion euros in 2023.

The US has pledged an additional 2.5 billion dollars in food aid to Africa in 2023, essentially supporting US farmers and facilitating the entry of US companies into the African Continental Free Trade Area. China has been more active in Africa's agricultural sector, but by early 2021, only about 5% of Chinese companies and direct investment on the continent were engaged there. Large agri-food projects involving China often raise fears of a debt trap.

African experts, analyzing the effect of the long-term emphasis of external investors on infrastructure projects, believe that it was suitable for the specific context of Southeast Asia, but does not meet the realities of Africa. For example, Prof. David Ndi, Chairman of Kenya's Presidential Council of Economic Advisers, noted, "The real constraint to economic growth in Africa is not a lack of infrastructure but low agricultural productivity dominated by smallholder farming.... Africa's economic take-off depends on pro-poor agricultural transformation"<sup>79</sup>. In this context, the second scenario – the modernization variant of African agro-industrial complex development – is non-alternative, although in intermediate and economically feasible and effective versions in terms of depth, scale and costs.

The limited "geopolitical empathy" of the West and China was manifested, in particular, during the COVID-19 pandemic (when Africa suffered greatly from the breakdown of food transport and logistics chains) and the implementation of the Black Sea Grain Initiative formally oriented to developing countries (within its framework from 01.08.2022 to 10.03.2023, African countries received only 13% of the food supplied – 3 times less than the EU together with Britain and 1.5 times less than China). Against this background, the African authorities and the public have very positively perceived Russia's decision to donate several hundred thousand tons of grain and mineral fertilizers to Africa.

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<sup>78</sup> Nakweya G. (2022). Africa's food imports bill 'could double by 2030'. *SciDevNet*, 15th Sep. Available at: <https://www.scidev.net/sub-saharan-africa/news/africas-food-imports-bill-could-double-by-2030> [Accessed at 15/03/24].

<sup>79</sup> Ndi D. (2022). The African dichotomy: infrastructure or agriculture? *World of Change*. no. 4., p. 87.

In the new conditions, the development of partnership with Russia and post-Soviet states in ensuring Africa's food security may become a certain alternative (including demonstration) to the West as well as to China's expansion. There is a real basis for this. In recent years, the Russian agro-industrial complex has been steadily increasing the production of products basic for Africa – grain and its processed products (flour, cereals), vegetable oil (primarily sunflower oil), meat and dairy products, as well as mineral fertilizers and intermediates for them (ammonia).

This allowed to significantly increase the volume and begin to diversify the structure of exports to Africa. In 2021, its share in Russia's agro-food exports by value reached 12%, in imports – more than 5%, with exports covering almost 240% of imports. In agro-food imports from Africa, the Russian Federation took the fifth place (5.0%), closely approaching the United States and 1.2-1.4 times exceeding the indicators of Argentina, China and Ukraine. In a number of important commodity items, supplies from the Russian Federation are of key importance for African countries, covering 13% of their total imports of grain and from 11% (Kenya) to 48% (Cameroon) of imports of mineral fertilizers.

According to ECOWAS estimates, in 2022, reduced fertilizer supplies due to anti-Russian sanctions led to a 25% drop in grain harvest in West Africa, increasing the number of hungry people to 48 million. Formal and informal restrictions on Russian grain exports contributed to the strengthening of its focus on the African market (in the 2022/2023 season – the second place in Russian exports – more than 15 million tons, or about 30%), including supplies to Uganda increased by 6 times, Algeria – 5 times (up to 2 million tons), Sudan – 2 times. Egypt, which has traditionally bought about half of its wheat imports from Russia (about 6 million tons), may increase its purchases by a third – up to more than 8 million tons.

Russian exports of meat products to Africa are still small, but they are growing dynamically. In 2017-2021, it grew 13 times, to 25 thousand tons, and by 2030 it may exceed 100 thousand tons.

Under the new geopolitical conditions, Russian business is becoming the main initiator and actor of the Russia-Africa partnership in the agro-industrial complex. According to surveys of Russian businessmen already working there, high margins combined with low regulation and low competition make Africa attractive for business. Experts believe that favorable prospects are opening up for all major groups of companies interested in working in Africa<sup>80</sup>.

The first group includes producers and exporters of fertilizers (PhosAgro, Uralchem), agricultural machinery (Rostselmash), grain (Rif, Aston, United Grain Company), and livestock products (Miratorg, Cherkizovo, Damate) that are intensifying their work in the African market. For example, PhosAgro accounts for 30% of Russian fertilizer exports to Africa and plans to double its supplies in the current five-year period.

The second group is investors, including for diversification of business geography and risk hedging. They are not yet very active in the agro-industrial complex, although PhosAgro and Uralchem have considered options to buy existing enterprises or create new ones, including for localization of part of production there.

The third group is high-tech companies (Yandex, Kaspersky, Geoscan) entering African markets and expanding their client base in Africa, creating new jobs, including in Russia. So far, the scale of

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<sup>80</sup> What to expect from Russian-African economic relations. *RBK*. 29/07/22. Available at: <https://trends.rbc.ru/trends/innovation/62ddc8cb9a7947ad9188db4b> [Accessed at 15/03/24].

their work is more modest than that of the first group of companies, but they are growing rapidly, taking on new areas, such as digital industrial transformation, including in the agro-industrial complex.

The model of Russia-Africa economic partnership is gradually changing in favor of the latter two groups. In 2023, the Ministry of Economic Development of the Russian Federation, based on the proposals of the relevant ministries and agencies, informed about the development of a roadmap for key areas of cooperation. According to experts, the successful implementation of these initiatives will be helped by the creation of a developed Russian banking infrastructure in Africa, providing Russian business and its local partners with the necessary financial, credit and insurance support. So far, only the African Export-Import Bank is active in this area. This bank, in which Russia has been a shareholder since 2017, is currently working with the UN to create a platform to facilitate the processing of transactions related to the export of Russian agricultural products and fertilizers to Africa.

The creation and application in the Russia-Africa partnership of an alternative international system of payments and settlements, immune to unilateral sanctions of the United States and other Western countries with reserve currencies, can also play an important stimulating role. The creation of a new payment and settlement system should naturally take into account the principles and mechanisms of already existing integration structures with the participation of the Russian Federation, primarily the Eurasian Economic Union (EAEU).

The economic partnership between the Eurasian "five" states and African countries at the bilateral level is regulated by relevant interstate agreements, and at the level of the EAEU and the African Union (AU) – by the Memorandum of Understanding between the Eurasian Economic Commission and the African Union in the field of economic cooperation, signed in October 2019. Two EAEU countries – Armenia (since 2010) and Kazakhstan (since 2013) – have observer status in the AU. Negotiations are underway to establish an EAEU free trade zone with Egypt.

EAEU-Africa trade and economic ties are developing dynamically, although they are relatively low and insufficiently balanced<sup>81</sup>. Over the past 10 years, their trade turnover has doubled, reaching 18.9 billion dollars by 2022. Africa ranked 13th among the EAEU's foreign trade partners, with EAEU exports growing at a faster pace and amounting to 15.4 billion dollars, with Russia's share in it at about 95%. Five countries – Algeria, Egypt, Morocco, Nigeria, and Tunisia – account for over 80% of EAEU exports to Africa.

Agricultural products occupy one of the key positions in the current trade relations. Russia supplies wheat, corn, barley, flour, vegetable oils, confectionery, mineral fertilizers and pesticides to the AU countries; Belarus – dairy products, cereals, potash fertilizers, machinery for agriculture and food industries; Kazakhstan – wheat, livestock products, sulphur for agrochemicals; Armenia and Kyrgyzstan – canned goods.

In most documents on EAEU-Africa cooperation and for the future, agriculture and the agro-industrial complex as a whole are defined as a priority area. The dynamically developing production and export potential of the EAEU regional agro-industrial complex provides a real basis for this. The level of regional self-sufficiency in most types of food in the EAEU is already 80-95%.

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<sup>81</sup> Volkov S.N., Deitch T.L., Konstantinova O.V. (eds.) (2022). Cooperation of the Eurasian Economic Union Participants with African Countries. *I Afr RAS*, p. 12.

According to estimates of Eurasian Development Bank experts (2023), in the next 12 years, regional food production could grow by 1.5-2.5% per year, which would create export resources sufficient for 240 million people of its own population and additionally for 360 million people in third countries. This opens up opportunities for coordination and cooperation of EAEU countries in ensuring the supply of products to the agro-industrial market in Africa, especially given the anti-Russian and anti-Belarusian sanctions of the West and its attempts to weaken integration cooperation within the EAEU.

Promising areas for uniting the efforts of EAEU countries in the agro-industrial sector of African countries include the following:

- creation by Russia, Belarus and Kazakhstan of a network of joint food hubs for storage and distribution of basic products with possible further expansion of storage nomenclature to include meat and dairy products from all EAEU countries;
- coordinated arrangement and use of all directions within the multimodal transport corridor North-South to the ports of Iran for further maritime transit of grain and other foodstuffs, mineral fertilizers and agricultural machinery from the eastern regions of Russia, Belarus, Kazakhstan and Kyrgyzstan to East and South Africa;
- exploring opportunities for cooperation between interested EAEU countries in engineering and construction of irrigation and agro-industrial enterprises;
- exploring opportunities for cooperation between all EAEU countries in the construction of aquaculture facilities, and between Russia and Belarus in the production of equipment for marine fishing vessels;
- coordination of supplies (including logistics) of mineral fertilizers, pesticides from Russia, Belarus, Kazakhstan, including creation of joint trade and distribution and partially production hubs;
- intensification of industrial cooperation between Russia, Belarus, Kazakhstan and Kyrgyzstan in the production of agricultural machinery and between all EAEU countries in the production of equipment for food industries, taking into account the needs of the African market and the possible establishment of assembly plants there;
- cooperation of interested EAEU countries in creating a joint system of online sales of food products on the African market;
- exploring opportunities for cooperation in creating a coordinated system of banking, credit and insurance services for businesses in the EAEU countries, including small and medium-sized businesses;
- exploring opportunities for cooperation to ensure personal safety of employees of EAEU companies in unstable regions of Africa.

### **Russia as security guarantor**

Along with the problem of hunger, Africa faces acute problems of political and military security. In this regard, the involvement of strong regional players, in particular Saudi Arabia and Turkey, in the ongoing conflicts on the continent should be taken into account. India, for example, hosted representatives of 31 African countries for military drills in 2023 and promises to use its G20

presidency this year to be the "voice of the Global South." Turkey has security agreements with 30 African states and its defense exports to Africa have more than quintupled between 2020 and 2021, while the West's presence in the field is shrinking. The last French troops left Mali after a nine-year deployment. The ruling regime there is supported by Russia.

Difficulties in providing security assistance are due to the confusion of military and non-military security, the management of which falls under a single framework. Power structures are blurring in terms of accountability and status; in fact, "private armies" are actively emerging, with everything necessary to participate in combat operations or prepare contingents of personnel for them.

This dictates a special approach for countries trying out the role of "security providers". In modern conditions, such "services" can range from supplying weapons and training armed forces personnel to providing civilian security equipment (security systems, video surveillance, information security systems). In some cases, the process is interpreted more broadly – for example, the Russian Foreign Ministry has characterized the country's policy in Africa as a "provider of sovereignty"<sup>82</sup>. This implies a new level of integration of the efforts of public authorities and private business.

The topic of PMCs operating in the Global South has always been politicized, and so it was in the 1960s-1970s, during the heyday of European mercenarism in Africa. Russian private military presence in Africa has been formed since the early 1990s, but in the 2010s acquired a systematic dimension through centralized operations of PMCs, acting, on the one hand, as private business structures, and on the other hand, as an indirect conductor of Russia's military and political interests<sup>83</sup>. Such zones of activity have emerged in recent years in Mali, Burkina Faso, Central African Republic, Sudan, Mozambique. The main function of contract work of PMCs in these regions is the training of local security forces and the classic activity of military advisors at the headquarters of these forces

The involvement of PMCs in peacekeeping operations and force support of conflict resolution is still limited. The exception is private orders for demining of territories, transferred to narrowly specialized highly professional structures, involving retired military deminers. However, the situation dictates not so much the development of PMCs as business structures or military-political instruments, as the formal or informal appearance of such own structures in the contours of major corporations doing business in dangerous regions. China is already relying on this experience in protecting the presence of its companies in Kenya, Ethiopia, Djibouti, Sudan, in the Guinea Gulf region<sup>84</sup>.

The strategy of military-technical cooperation with the countries of the Global South will inevitably undergo changes in the coming years, and not only because of problems with logistics and financial transactions after 2022. The world is witnessing a distinct drift of services in the field of export supplies of military products and services – from final goods to integrated solutions. The poorest countries of Africa have not yet taken a noticeable position in this trend, remaining mainly buyers of certain types of products – small quantities of Russian weapons, new weapons and military

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<sup>82</sup> Foreign Ministry calls Russia provider of sovereignty for Africa. *RIA Novosti*, 14/03/23. Available at: <https://ria.ru/20230314/afrika-1857836397.html> [Accessed at 15/03/24].

<sup>83</sup> Efremenko D.V. (2022). Russia's relations with African countries in the light of the special military operation in Ukraine. *Outlines of global transformations: politics, economics, law*, vol. 15, no. 4, pp. 60–78.

<sup>84</sup> China Turns to PMCs to Protect Its Workers and BRI Investments in Africa. *ADF*. 05/01/22. Available at: <https://adf-magazine.com/2022/01/china-turns-to-pmc-to-protect-its-workers-and-bri-investments-in-africa> [Accessed at 15/03/24].

equipment, and mainly previously used weapons from the arsenal of the Ministry of Defense, ammunition for old Soviet and supplied since the 1990s Russian weapons, as well as services of PMCs. Significant exceptions were the rich countries of the Maghreb (Egypt and, especially, Algeria – among the major clients of the Russian military-industrial complex of the last decade), as well as countries occasionally engaged in large purchases of Russian new weapons (Uganda).

At the same time, the logic of a comprehensive security strategy is applicable here as well. This will require the integration of military and technical cooperation into the general context of development cooperation with the countries of the Global South and, especially, overcoming the situation in these markets, where supplies are either linked to the client's solvency on a purely military basis (and limited by it) or deliberately characterized as gratuitous aid (most often resulting in the transfer of obsolete weapons systems from storage).

The collective nature of efforts in the area of military-political and military-technical cooperation makes it possible to ensure the involvement of post-Soviet states allied to Russia in this process. Thus, Belarus and, since recently, Kazakhstan, due to the development of the military-industrial complex, can serve as support bases for the development, production, assembly, and maintenance of certain samples of equipment supplied within the framework of this cooperation.

Some post-Soviet states are familiar with the problems of stagnant poverty in conditions of rapid population growth, as well as with the experience of resolving inter-ethnic and inter-confessional conflicts, which is also relevant for the states of the Global South. Finally, post-Soviet states will be sources of line staff and even part of qualified specialists for the implementation of joint programs.

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The Pivot to the South is becoming one of the priority trends in the shaping of a new world order, and the vast area of Africa+ is becoming a new arena of fierce competition between the world's major actors. In this situation, Russia and its EAEU partners, while yielding to the West and China in the financial sphere, have significant resources and opportunities to provide African countries with assistance and support in solving the continent's problems – food and military-political security.

Russia's positive image and perception by the African states' elites and societies, and the absence of prejudice towards them, can be supported by post-Soviet states and constitutes Russia's unique resource. Russia and the post-Soviet states, on the one hand, and Africa, on the other, are not affected by the colonial past. Therefore, in addition to the above-mentioned goals, in the strategy of Russia and the EAEU in relation to the continent, it is necessary to strengthen the cultural-civilizational and scientific-educational component as a basis for lasting cooperation and sustainable development.



## CHINA: IS COMMON PROSPERITY POSSIBLE?

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### INTRODUCTION

The external and internal environment is becoming increasingly unfavorable for the PRC. There is a growing rivalry with the US, difficulties in the European direction and unfavorable prospects for the global economy. Domestic imbalances are growing. Household final consumption, a key component of the envisioned dual-circulation development model, has not recovered after COVID-19. The real estate market is experiencing a decline in prices and sales volumes, as well as a reduction in the land plots available for development. State investments in fixed assets are ahead of private ones. The high indebtedness of state corporations and provincial authorities, under unfavorable circumstances, is fraught with a debt crisis, and if it spreads to the entire financial sphere of China, it will call into question the achievement of the second Centenary Goal of becoming a power capable of competing with the United States on equal terms by 2049. A number of nationwide development programs have been put forward to address these problems. One of them is based on the idea of common prosperity.

### THE IDEA

President Xi Jinping's idea of common prosperity in the country has become a core component of China's state ideology. It is included both in the 14th Five-Year Plan for the socio-economic development of the PRC for 2021-2025 and in the long-term development goals of the country until 2035<sup>85</sup>. Deng Xiaoping also mentioned common prosperity, though in the context of allowing inequality: "We must allow some individuals and regions to be the first to become rich"<sup>86</sup>. In Deng's view, they would help everyone else to become rich, and the result would be common prosperity.

Xi Jinping revived Deng's idea – common prosperity was mentioned by him in October 2020 at the Fifth Plenum of the 19th CPC Central Committee during the discussion of the 14th Five-Year Plan<sup>87</sup>. In a November 2020 article, he emphasized that achieving the strategic goal of socialist modernization of the country by 2035 includes a component of prosperity for all. In August 2021, at the 10th meeting of the Central Commission for Financial and Economic Affairs, it was emphasized that what is meant is "prosperity for all people in material and spiritual terms," but not egalitarianism (i.e., rigid equalization)<sup>88</sup>.

For this purpose, the state should strengthen the adjustment of high incomes, reasonably regulate excess income, and encourage businesses and high-income earners to give more back to society. Hard work and innovation should also be encouraged, and people's living conditions should be preserved and improved. At the same time, the state has a responsibility to open up channels of upward mobility and create opportunities for more people to become rich. In realizing common

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<sup>85</sup> 习近平. 扎实推动共同富裕. *QSTHEORY*. Xi Jinping. Solidly Promote Common Prosperity. *QSTHEORY*, 15th Oct. (In Chin.) Available at: [http://www.qstheory.cn/dukan/qs/2021-10/15/c\\_1127959365.htm](http://www.qstheory.cn/dukan/qs/2021-10/15/c_1127959365.htm) [Accessed 20/02/24].

<sup>86</sup> Hofman B. (2021). Common Prosperity Did Not Fall from the Sky. Mercator Institute for China Studies, 5th Oct. Available at: <https://merics.org/en/comment/common-prosperity-did-not-fall-sky> [Accessed 02/03/24].

<sup>87</sup> Skidmore Z. (2021). China Merges Key Rare Earth Producers. *Mining Technology*, 23th Dec. Available at: <https://www.mining-technology.com/news/china-merges-rare-earth/> [Accessed 02/03/24].

<sup>88</sup> Chu Daye (2021). China Unveils State-Owned Logistics Giant to Improve Competitiveness Globally. *Global Times*, 6th Dec. Available at: <https://www.globaltimes.cn/page/202112/1240817.shtml> [Accessed 02/03/24].

prosperity, it is expected to adhere to the foundations of the basic economic system established in China, the achieved first stage of socialism and the principles of "two unshakable tasks" – consolidate and develop the public sector, and encourage the development of the private sector.

The meeting participants also noted that it is necessary to follow a people-centered development ideology, promote prosperity for all against the background of quality development, get the balance between efficiency and justice, build a sustainable system with mechanisms for coordinating the primary, secondary and tertiary distribution of the social product<sup>89</sup>, increase the flexibility and accuracy of taxation, social insurance, transfer payments, increase the share of middle-income earners in the total population, and increase the income of the poor. The main idea is to form an "olive-shaped" income structure of the population: a small number of rich and poor in the upper and lower zones and a large middle class in the midst.

On October 15, 2021, the CPC's main theoretical journal *Qiushi* ("In Search of Truth") published an article by Xi Jinping based on his speech at the 10th meeting of the Central Commission for Financial and Economic Affairs entitled "Firmly Promote Common Prosperity," in which the main points of his speech were clarified<sup>90</sup>:

- high-quality development requires a high-quality workforce: labor productivity and momentum can only be increased by promoting common prosperity, raising urban and rural incomes, and developing human capital;
- income inequality creates problems: social disintegration, political polarization, rampant populism;
- income inequality is also caused by the new stage of technological revolution, which has a strong impact on employment and income distribution;
- achieving prosperity for all will be divided into stages. By the end of the 14th Five-Year Plan (2025), a "solid step toward common prosperity" should be taken: the income and consumption gaps among PRC citizens will narrow significantly. By 2035, common prosperity will become more evident: progress in the provision and access to basic goods should be equal for everyone. By the middle of the 21st century, common prosperity should be largely realized: income and consumption gaps will narrow to an acceptable level;
- the development of an action plan for realizing common prosperity should be accelerated: a scientific and implementable system of indicators, as well as evaluation and assessment methods appropriate to Chinese realities should be established.

The article further identifies six main directions where the authorities should make maximum efforts.

1. Improve the balance of regional development, including Beijing-Tianjin-Hebei, the Greater Bay Area (Guangdong-Hong Kong-Macao), and the Yangtze River delta and economic belt. Improve the transfer payment system, reduce regional disparities in per capita fiscal expenditures, and

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<sup>89</sup> The primary distribution is the direct income of households; the secondary distribution is at the expense of taxes and other types of payments to the budget; the tertiary distribution is, as a rule, charity, etc.

<sup>90</sup> 习近平. 扎实推动共同富裕. *QSTHEORY*. Xi Jinping. Solidly Promote Common Prosperity. *QSTHEORY*, 15th Oct. (In Chin.) Available at: [http://www.qstheory.cn/dukan/qs/2021-10/15/c\\_1127959365.htm](http://www.qstheory.cn/dukan/qs/2021-10/15/c_1127959365.htm) [Accessed 20/02/24].

strengthen support for underdeveloped regions. Improve coordination in the developing sectors of the economy, accelerate the reform of monopolistic sectors and promote the coordinated development of finance and real estate with the real economy. Support the development of small and medium-sized enterprises and create an environment in which large, medium-sized and small enterprises are interdependent and supportive of each other.

2. Increase the number of middle-income population, including the integration of low-income citizens into the middle class. University graduates are promising members of the middle class, so it is necessary to improve the quality and relevance of higher education. Along with them, skilled workers are an important component of the middle class. Their professional education should be stimulated and their wages should be increased. In addition, it is important to support owners of small and medium-sized enterprises, as well as individual entrepreneurs who are successful through their activity, by improving the business environment, especially by reducing taxes and various types of payments, and by providing them with market-oriented financial services. With regard to migrant workers, who are also promising members of the middle class, it is necessary to deepen the reform of registration in cities, etc. The wages of civil servants, employees of state enterprises and other organizations should be properly increased. In addition, the income of urban and rural population from real estate, agricultural land, financial assets and other types of property should be increased.

3. Promote equal provision of basic public services: increase investment in human capital development, provide financial support for education for low-income families; improve the pension system and health care; implement the principle of "housing for living, not for speculation"; develop a policy of long-term rental housing and subsidized rents.

4. Strengthen regulation and adjustment of high incomes. To avoid social polarization, regulate excess income, improve taxation of individuals, and manage capital income.

5. Integrate common prosperity with the overall spiritual development of the people. Therefore, it is important to enhance the leadership role of basic socialist values as well as education in patriotism, collectivism and socialism. Hence, it is important to develop public culture and satisfy the spiritual, moral and cultural needs of the people.

6. Promote common prosperity among farmers, fight poverty in agricultural areas and support those who may fall into poverty; build infrastructure, accelerate agricultural industrialization.

At the end of the article, Xi Jinping warns that not all of China's people or regions can become rich at the same time. The realization of common prosperity is a dynamic process and must be "promoted, guided and brought to results".

WHY?

Another initiative of the President of the People's Republic of China (the Great Revival of the Chinese Nation, Chinese Dream, Beautiful China, etc. are the previously presented and formally still valid initiatives), aimed at reducing inequality, is presented against the background of seemingly good social results. According to the World Bank, the Gini Coefficient in China reached

its highest point – almost 44 – in 2010, and by 2019 it fell to 38.2<sup>91</sup>. The General Statistical Office of the country assesses the situation with income inequality more pessimistically, but also records a decrease in the indicator: 2011 – 49, 2021 – 46.6<sup>92</sup>.

At the same time, the efficiency of secondary distribution remains at a rather low level. For example, income tax provides only 4% of all state revenues. By comparison, the average indicator in OECD countries is 20%. Most tax revenues in China are generated by VAT, luxury consumption tax, and social contributions levied on wages. Taking into account that the contributions paid by low-income citizens are at a minimum level, and for high-income citizens there is a relatively low maximum amount, the existing taxes are rather regressive and fall mainly on the shoulders of the Chinese middle class, which is not wealthy by the standards of developed countries.

In addition, the aggravation of strategic competition with the United States may lead to a further slowdown in the growth of Chinese exports. The consequences of the pandemic have not been fully overcome, especially the final consumption of households has not yet recovered. Negative phenomena in the real estate market put additional pressure on the financial condition of the provinces. These and other gradually accumulating structural problems in the Chinese economy are likely to contribute to increased competition for a piece of the common "pie", property stratification, social distancing, etc., which may lead to hard-to-predict social consequences.

Therefore, from Beijing's point of view, it is necessary, first, to strengthen control over the "sharing of the pie", second, to develop and implement effective mechanisms for increasing or decreasing its individual "pieces" and, third, to maintain the CCP's stability and improve its image, at least through seemingly populist statements.

#### TAKE AWAY AND DIVIDE?

The mechanisms through which common prosperity will be achieved are not yet clear. The final plan has yet to be worked out. Because of this, the individual ways of realizing common prosperity may look somewhat vague, contradicting one another as well as the current monetary and fiscal policies and the country's overall development strategy. Some of the guidelines of the new policy are partly secondary to the content of other previous strategic documents of the PRC and, in general, are a mixture of already repeatedly announced ideas. In particular, the need to improve the mechanism of income redistribution was mentioned in the final statement of the 3rd Plenum of the CCP Central Committee back in 2013<sup>93</sup>. It seems that the increase in the number of ideas, goals, benchmarks, etc. may make their practical realization difficult.

For example, it is not clear what is meant by the reform of monopolized sectors of the economy. On the one hand, the authorities continue to create large state-owned corporations through mergers. In December 2021, China Minmetals Rare Earth, Chinalco Rare Earth and Metals, and Ganzhou Rare Earth Group were merged to form China Rare Earth Elements Corporation. In the same month,

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<sup>91</sup> Luo Guoping, Walsh M. (2021). China Finalizes Merger of Two Largest State Chemical Firms, Creating Sinochem Holdings. *Caixing Global*, 10th May. Available at: <https://www.caixinglobal.com/2021-05-10/china-finalizes-merger-of-two-largest-state-chemical-firms-creating-sinochem-holdings-101709281.html> [Accessed 20/02/24].

<sup>92</sup> Yingzhi Yang, Cheng Leng, Pei Li, Yilei Sun, Munroe T. (2021). China Market Regulator Fines 12 Firms for Violating Anti-Monopoly Law. *Reuters*, 12th Mar. Available at: <https://finance.yahoo.com/news/china-market-regulator-fines-12-043547420.html> [Accessed 20/02/24].

<sup>93</sup> Zhong R. (2021). China Fines Alibaba \$2.8 Billion in Landmark Antitrust Case. *The New York Times*, 1st Sep. Available at: <https://www.nytimes.com/2021/04/09/technology/china-alibaba-monopoly-fine.html> [Accessed 20/02/24].

China Railway Materials, China National Materials Storage and Transportation Group, Huamao International Freight Limited Company, China Logistics, and China National Packaging Corporation formed the state-owned China Logistics Group. In April 2021, Sinochem Group Co. and China National Chemical Corp. were merged<sup>94</sup>.

On the other hand, the authorities still perceive monopolies as a negative phenomenon. In March 2021, the Chinese State Administration of Market Supervision and Regulation fined 12 companies (500 thousand RMB each), including Baidu Inc., Tencent Holdings, Didi Chuxing, SoftBank, etc., for illegal monopolistic behavior. In April, Alibaba Group was fined 17.8 billion RMB, and in October, online trading platform Meituan was fined 3.3 billion RMB. After the fine imposed on Alibaba, the CCP's main newspaper, the Renmin Zhibao, said that "monopoly is the great enemy of market economy"<sup>95</sup>.

Another possible contradiction lies in the area of taxation. On the one hand, Xi Jinping's article states that it is necessary to introduce a property tax and actually increase the income and consumption tax, while on the other hand, the Chinese Ministry of Finance plans to further reduce the tax burden on small and medium-sized enterprises to support them until at least the end of 2023. Tax relief is being introduced in the field of innovation and scientific activities. They totaled more than 4 trillion RMB in 2022.

The tax burden can be shifted from enterprises to individuals, but it is not entirely clear how the dual-circulation development strategy, which implies an increase in final consumption by households, will be implemented in this case. Will the Chinese authorities be able to strike a delicate balance between increasing taxation of individuals, albeit wealthy ones, and increasing demand for domestic products from them?

The mentioning of primary, secondary and tertiary distributions adds to the ambiguity. It seems that the tertiary distribution – some form of charity of large companies towards the society – will be the main focus in the realization of the policy of common prosperity. It is true that the culture of charity in China is growing, but it is still too early to speak about the formation of a tradition and a full legal infrastructure.

The "selfless" willingness of China's major IT giants to share their profits with society has only increased dramatically after serious regulatory complaints against Alibaba. In March 2021, Chinese online trading platform Pinduoduo donated about 640 million RMB to Zhejiang University for projects in biomedicine, food and agriculture<sup>96</sup>. In August, Pinduoduo announced an additional intention to donate its second-quarter 2021 earnings and a portion of future earnings to a variety of research projects<sup>97</sup>. In April 2021, China's Tencent donated nearly 50 billion RMB to green energy,

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<sup>94</sup> Luo Guoping, Walsh M. (2021). China Finalizes Merger of Two Largest State Chemical Firms, Creating Sinochem Holdings. *Caixing Global*, 10th May. Available at: <https://www.caixinglobal.com/2021-05-10/china-finalizes-merger-of-two-largest-state-chemical-firms-creating-sinochem-holdings-101709281.html> [Accessed 20/02/24].

<sup>95</sup> Stone Fish I. (2021). China's Anti-Monopoly Crackdown Is Just an Excuse. *Barron's*, 15th Dec. Available at: <https://www.barrons.com/articles/chinas-anti-monopoly-crackdown-is-just-an-excuse-51639513574> [Accessed 20/02/24].

<sup>96</sup> Lau Y. (2021). China's Big Tech Billionaires Increase Philanthropic Giving as Beijing Cracks down. *Fortune*, 7th Aug. Available at: <https://fortune.com/2021/08/06/china-big-tech-crackdown-billionaires-philanthropy-giving-donations> [Accessed 20/02/24].

<sup>97</sup> Yue Wang (2021). China's Tech Giants Are Giving Away Their Money to Avoid Beijing's Wrath. *Forbes*, 26th Aug. Available at: <https://www.forbes.com/sites/ywang/2021/08/26/chinas-tech-giants-are-giving-away-their-money-to-avoid-beijings-wrath/?sh=51b136793485> [Accessed 20/02/24].

education, and village renovation projects, and further announced plans to invest another 50 billion RMB to build medical facilities and support low-income groups.

The "auction of unprecedented generosity" included the previously mentioned Meituan, whose management announced in May 2021 that it would donate nearly 15 billion RMB to education and research. In the same month, ByteDance's founder allocated nearly 500 million RMB from his personal funds to establish an educational foundation in his hometown of Longyan (Fujian Province).

The "irresistible" desire to donate a large sum of money to society has intensified among Chinese athletes and movie stars, as well as popular bloggers, after Chinese actress Zheng Shuang was fined 300 million RMB by the State Tax Administration in August 2021. In December, blogger Huang Wei (specializing in online sales) was fined 1.34 billion RMB for non-payment of taxes in 2019-2020, totaling 700 million RMB<sup>98</sup>.

In general, Chinese regulators are increasing tax enforcement and applying harsher measures. In May 2020, for example, in Jiangxi Province, a perpetrator of a 2.55 billion RMB financial document forgery case was sentenced to 15 years in prison. In June 2021 in Dalian, a culprit was sentenced to life imprisonment for VAT fraud worth 3.86 billion RMB. In October of the same year in Shandong Province, a perpetrator was sentenced to 10.5 years in prison for a 6.44 billion RMB fraud. In January 2021, in Anhui Province, the perpetrator was sentenced to 10.5 years in prison. In Anhui Province in January 2021, a perpetrator of a 368-million-RMB fraud was sentenced to 12 years in prison<sup>99</sup>.

According to the Tax Administration, in 2021, 440,000 companies were held liable for violations of PRC tax laws and 90.9 billion RMB was recovered in favor of the state. For comparison: in 2020 – 322.3 thousand companies and 85 billion RMB respectively<sup>100</sup>. However, despite the success of the Chinese authorities in improving tax discipline and increasing the popularity of charity, there are doubts that secondary and even more so tertiary distribution can become a sustainable financial basis for common prosperity. The question of finding additional sources of financing for the implementation of Xi Jinping's idea remains relevant.

## REAL ESTATE TAXATION

The State Council of the People's Republic of China plans to launch a pilot program of increased taxation of real estate in several Chinese regions, probably initially in the cities of Hangzhou (Zhejiang Province) and Shenzhen (Guangdong Province). It should cover owners of both land and residential and commercial real estate. However, owners of housing in rural areas will be exempted from paying the relevant tax for 5 years until the National People's Congress evaluates the effectiveness of the program and, very likely, extends it to the whole country.

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<sup>98</sup> Qu T. (2021). China Tech Crackdown: Hangzhou Fines Top Influencer Viya a Record US\$210 Million for Tax Evasion. *SCMP*, 20th Dec. Available at: <https://www.scmp.com/tech/policy/article/3160436/china-tech-crackdown-hangzhou-fines-top-influencer-viya-record-us210> [Accessed 20/02/24].

<sup>99</sup> Yue Wang (2021). China's Tech Giants Are Giving Away Their Money to Avoid Beijing's Wrath. *Forbes*, 26th Aug. Available at: <https://www.forbes.com/sites/ywang/2021/08/26/chinas-tech-giants-are-giving-away-their-money-to-avoid-beijings-wrath/?sh=51b136793485> [Accessed 20/02/24].

<sup>100</sup> Wang O. (2021). China's Tax Evaders to be "Severely Punished" as Beijing Pushes for "Common Prosperity". *SCMP*, 31th Dec. Available at: <https://www.scmp.com/economy/china-economy/article/3161742/chinas-tax-evaders-be-severely-punished-beijing-pushes-common> [Accessed 20/02/24].

The Chinese authorities have previously tried to launch a similar program. In 2011, a real estate tax (excluding the value of the land under the structure) was introduced in Shanghai and Chongqing with the main purpose of limiting price growth, primarily for housing. However, fearing the negative impact of increased real estate taxation on the urbanization program (possible decrease in real estate market sales), as well as opposition from provincial authorities (cooling of the real estate market could lead to significant financial losses for them, as about 40% of the provincial government's annual revenue is generated by real estate transactions), the authorities never extended the practice to the rest of China.

First, the program is expected to increase provincial revenues through the collection of additional tax, thereby reducing the importance of other real estate revenues, primarily from the transfer of land for development, in which they have a direct interest. This, in turn, is reflected in the general growth of real estate prices and the cost of various construction projects for which local authorities take loans or issue securities, thus increasing their debt burden.

Second, stricter real estate taxation should help realize Xi Jinping's thesis that housing is meant for living, not speculation. By limiting the number of speculative transactions, the regulators will reduce demand from consumers who use real estate as a financial instrument rather than as a dwelling, thus slowing down the growth rate of its price.

Third, the program is expected to redistribute wealth more equitably and generate additional resources to combat inequality, i.e., to put into practice the idea of common prosperity.

Fourth, the tax reform that may follow the real estate tax pilot program, if successful, will limit centrifugal tendencies in Chinese administration. It is easier for the center to control property taxes than not always transparent revenues from land transfers and other provincial government operations.

The government's plans to implement the common prosperity policy in terms of combating inequality by redistributing wealth through a property tax have raised some concerns. On average, annual sales in China's real estate market are estimated at more than \$1.5 trillion per year<sup>101</sup>. According to the latest available research of the People's Bank of China, real estate accounts for about 60% of the total assets of households, and it accounts for almost 76% of their financial liabilities. Of the 300,000 households who participated in the research, 55% owned one dwelling, about 31% – two dwellings, and 10.5% – three or more<sup>102</sup>. In general, the average cost of 1 m<sup>2</sup> of housing in the PRC has increased over the last decade from 18 thousand to 55.5 thousand RMB.

According to some Chinese analysts, the population's income lags behind real estate prices in terms of growth rates. For example, Shanghai's per capita disposable income in 2021 is estimated at 72,000 RMB per year (the highest among mainland Chinese cities), while the national average is

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<sup>101</sup> Choi M. (2021). China Will Set Up a Property Tax Pilot Plan, Taking Small Steps after Years of Dithering to Tame Home Prices for Common Prosperity. *SCMP*, 23th Oct. Available at: <https://www.scmp.com/business/article/3153462/china-will-set-property-tax-pilot-plan-taking-small-steps-after-years?module=inline&pgtype=article> [Accessed 20/02/24].

<sup>102</sup> Tang F. (2021). Why China's Property Tax Plan Is a Key Pillar in Its 'Common Prosperity' Drive. *SCMP*, 27th Oct. Available at: <https://www.scmp.com/economy/china-economy/article/3153886/why-chinas-property-tax-plan-key-pillar-its-common-prosperity?module=inline&pgtype=article> [Accessed 20/02/24].

32,000 RMB per year<sup>103</sup>. At the same time, the cost of 1 m<sup>2</sup> of residential real estate in Shanghai in 2021 averaged 118 thousand RMB, i.e. a 30-meter apartment costs about 3.5 million RMB. According to approximate calculation, without taking into account additional expenses, it turns out that it takes almost 50 years to save up for such an apartment. In Shenzhen, the average cost of an apartment is 43.5 times higher than the annual income of a local resident.

The current situation on the real estate market is likely to contribute to the formation of quite serious problems.

First, it is the emergence of "anti-consumer" behavior among young people: housing prices are rising too fast, far outpacing wage growth, so the so-called millennials prefer to do nothing at all and settle for little. Such a consumer model threatens not only the real estate market, but also the Chinese economy as a whole, especially for its transition to a dual-circulation model with a priority on domestic consumption.

Second, given that the majority of Chinese citizens' wealth is statistically derived from the ownership of real estate, the authorities will need to fine-tune the taxation system. In the opposite case, a new tax on real estate, whose price growth significantly outpaces wage dynamics, could reduce households' real disposable income and purchasing power.

Third, the introduction of the tax and other measures cooling the real estate market (limiting mortgage lending to individuals and builders) may lead to its excessive decline (which has already happened as a result of previous efforts of regulators). Given the 25-30% share of the construction sector in China's GDP, this could cause serious negative economic consequences, such as a reduction in the output of steel, cement, glass, construction machinery, etc.

Fourth, fine-tuning is also required to strike a balance between acceptable reductions in real household incomes due to higher tax burdens and effective replacement of provincial revenue losses from the cooling of the real estate market in general, in particular from shifting local government revenue sources from real estate transactions to real estate taxation.

The distribution of tax revenues between the central and provincial budgets is an issue of additional concern. For example, there is a perception that the provincial government is not interested in imposing a higher tax on residential property and replacing revenues from land transfers for development by it<sup>104</sup>. It is estimated that the total value of all residential real estate in China is approximately RMB 350 trillion. Even if the real estate tax is 1%, its total value will reach 3.5 trillion RMB. This is less than half of the cost of land transferred for development in 2020, meaning provincial governments will lose rather than gain.

In particular, in 2020, Shanghai's revenue from real estate tax (0.4-0.6% of its value) amounted to 19.9 billion RMB, while the revenue from land transfer for development was almost 16 times higher (314.3 billion RMB). The situation is similar in Chongqing: the total amount of real estate

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<sup>103</sup> Cai J. (2021). Property Tax Concerns for China's Homeowners, Buyers amid Xi Jinping's Common Prosperity Drive. *SCMP*, 23th Nov. Available at: <https://www.scmp.com/economy/china-economy/article/3156951/property-tax-concerns-chinas-homeowners-buyers-amid-xi> [Accessed 20/02/24].

<sup>104</sup> Cai J., He Huifeng (2021). China's Property Tax Causing Sleepless Nights for Homeowners as Beijing Walks the "Tightrope". *SCMP*, 27th Nov. Available at: [https://www.scmp.com/economy/china-economy/article/3157477/chinas-property-tax-causing-sleepless-nights-homeowners?module=series\\_page&pgtype=series&campagin=China's%20property%20tax%20dilemma](https://www.scmp.com/economy/china-economy/article/3157477/chinas-property-tax-causing-sleepless-nights-homeowners?module=series_page&pgtype=series&campagin=China's%20property%20tax%20dilemma) [Accessed 20/02/24].



tax collected was 7.2 billion RMB, while the revenue from land transfer for development was 150 billion RMB<sup>105</sup>.

Fifth, the fate of land under residential real estate remains unclear. Under Chinese law, the right to dispose of such land is mainly limited to a 70-year period. The right of private ownership extends to the apartment, but not to the land under the residential building – the land belongs to the state and is transferred to the developers for temporary disposal for a certain fee. After 70 years, the right of disposal can be automatically prolonged. However, what would happen if the provincial government wanted to receive additional funds from the prolongation of this right (this is unlikely, but still): who would pay – the developer or the apartment owners?

There are also some other issues that have not been clarified. How will the tax be calculated: on the basis of the market value of residential real estate or will some average cadastral formula be applied? What will be the criteria for calculation: a second dwelling or the area per one resident?

Theoretically, Chinese citizens can also contribute to common prosperity. Currently, the following income tax rates apply:

from 0 to 36 thousand RMB per year – 3%;

from 36 thousand to 144 thousand RMB per year – 10%;

from 144 thousand to 300 thousand RMB per year – 20%;

from 300 thousand to 420 thousand RMB per year – 25%;

from 420 thousand to 660 thousand RMB per year – 30%;

from 660 thousand to 960 thousand RMB per year – 35%;

more than 960 thousand RMB per year – 45%.

Various deductions are available: standard deduction of RMB 5,000 per month; certain types of medical and pension insurance payments; housing fund contributions; unemployment insurance contributions; children's education (RMB 1,000 per month per child); supplementary education (RMB 400 per month or RMB 3,600 per year depending on the type of education); mortgage interest (RMB 1,000 per month); rental expenses (RMB 800, RMB 1,100, or RMB 1,500 per month depending on location); elderly care (up to RMB 2,000 per month depending on taxpayer status); major medical expenses (more than RMB 15,000 but less than RMB 80,000 per year); charitable contributions (up to 30% of taxable income)<sup>106</sup>. Specific plans to change the progressive taxation scale within the framework of the concept of common prosperity have not been announced yet.

## RESULTS AND CONCLUSIONS

Common prosperity is one of the main pillars of China's future socio-economic development. This program is expected to make a significant contribution to shaping and launching the model of economic development based on dual circulation and ultimately help Beijing achieve its Second

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<sup>105</sup> Tang F. (2021). Will China's Proposed Property Tax Be Big enough to Support Struggling Local Governments? *SCMP*, 2th Nov. Available at: <https://www.scmp.com/economy/china-economy/article/3154484/will-chinas-proposed-property-tax-be-big-enough-support?module=inline&pgtype=article> [Accessed 20/02/24].

<sup>106</sup> Choi M. (2021). China Will Set Up a Property Tax Pilot Plan, Taking Small Steps after Years of Dithering to Tame Home Prices for Common Prosperity. *SCMP*, 23th Oct. Available at: <https://www.scmp.com/business/article/3153462/china-will-set-property-tax-pilot-plan-taking-small-steps-after-years?module=inline&pgtype=article> [Accessed 20/02/24].

Centenary Goal. Common prosperity also plays an important ideological role – the idea was introduced by Xi Jinping, and the reputation of both the President and the CCP depends on the success of its realization.

Despite the importance of the program, there is still no clear plan for its implementation. The main question remains: where to get resources in the conditions of decreasing efficiency of the traditional growth factors of the Chinese economy? If taxation of the Chinese middle class, which is already not wealthy by world average standards, is increased, their demand will decrease, which will hit the dual circulation. The introduction of a real estate tax could undermine the real estate market, on which provincial budgets largely depend. If tertiary distribution, i.e. developing a tradition of charity, is the focus, it is unclear whether it will be sustainable. In the current challenging economic environment, Beijing will have to seek mutually beneficial and balanced solutions to very difficult problems.

## **THE ROLE OF THE UKRAINIAN CRISIS IN THE FORMATION OF A NEW WORLD ORDER**

*Eduard G. SOLOVYEV*

In an October 2023 speech on the US response to the Hamas terrorist attack against Israel and Russia's ongoing special military operation against Ukraine, United States President J. Biden stated that "the assault on Israel echoes nearly 20 months of war, tragedy, and brutality... [in Ukraine – auth.] Hamas and Putin represent different threats, but they share this in common: They both want to completely annihilate a neighboring democracy... If we walk away and let Putin erase Ukraine's independence, would-be aggressors around the world would be emboldened to try the same. The risk of conflict and chaos could spread in other parts of the world — in the Indo-Pacific, in the Middle East... We are, as ... Madeleine Albright said, "the indispensable nation"... We cannot and will not let terrorists like Hamas and tyrants like Putin win<sup>107</sup>.

This long quote from the US President's speech mirrors the deep contradictions of the contemporary American discourse on world politics. There is a seemingly unnatural combination of rhetoric in the spirit of classical idealism on behalf of the world's "benevolent hegemon" and clearly expressed realist overtones in the style of the domino theory – if Ukrainian "democracy" is shaken, it will inevitably entail the growth of aggressiveness of "irresponsible and reckless" autocrats and will lead to the complete collapse of the entire world order "based on rules", organized and harmonized by the American leadership, and the "American leadership" itself.

This strange combination of idealism and realism is essentially a product of the complex evolution of American political thought in recent decades – from the "offensive liberalism" of the turn of the XX-XXI centuries through the attempt to build "non-liberal" hegemony during the presidency of D.

Trump<sup>108</sup> to the revival of the ideological core of American foreign policy under J. Biden with attempts to form a global "alliance of democracies" and the re-ideologization of politics. Democrats traditionally show a greater tendency to exploit familiar ideological narratives, but in the end, it is about ideological packaging of a generally understandable political agenda.

In other words, J. Biden promotes a kind of "ideologized realism" in the international arena, where the ideological component consolidates allies in Europe and (to a lesser extent) in the rest of the world who are accustomed to the narrative of "democratic solidarity", and also obviously serves the real interests of the segment of the American elite in power, its interpretation of US national interests and ways to strengthen American leadership.

US policy in the post-Soviet space over the past 30 years has been based on the traditional postulate of the inadmissibility of the emergence of a military force or peer power in Eurasia equal to the United States. On this basis, any attempts to "reintegrate" post-Soviet states (not only politically, but also economically) with the leading role of the Russian Federation were considered

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<sup>107</sup> Remarks by President Biden on the United States Response to Hamas's Terrorist Attacks Against Israel and Russia's Ongoing Brutal War Against Ukraine Available at: <https://www.whitehouse.gov/briefing-room/speeches-remarks/2023/10/20/remarks-by-president-biden-on-the-united-states-response-to-hamas-terrorist-attacks-against-israel-and-russias-ongoing-brutal-war-against-ukraine/> [Accessed 25/02/24].

<sup>108</sup> On the rogue superpower: Kagan R. (2018). *The Jungle Grows Back: America and Our Imperiled World*. London, New York: Penguin, Random House p. 11.

unacceptable<sup>109</sup>. Russia remained an important direction of US foreign policy because of its ability to have a major impact on American interests in a wide range of areas, from geopolitics and WMD non-proliferation to energy.

By 2013, the contradictions between the United States and Russia were clearly manifested in the post-Soviet space, and they could not be resolved by mutual consent of the parties, i.e. within the framework of a non-zero-sum game. At the same time, a certain tension was felt both at the highest level (personal relations between Presidents V. Putin and B. Obama, which, as historical experience had shown, could have mitigated interstate contradictions, clearly did not work out) and in the middle tier of the US establishment and expert community.

Experts (not only American, but also many European) and representatives of the political establishment mostly took Z. Brzezinski's statement that Russia can revive its power potential and imperial status only through the subjugation of Ukraine<sup>110</sup> too seriously, and therefore focused on preventing any integration initiatives of Moscow. It is noteworthy that such a purely geopolitical approach was demonstrated by people who at every opportunity addressed Russia with accusations of abusing "the style of thinking of the XIX century".

The red lines in the Russian policy were quite clearly outlined back in the spring of 2008, when, at the NATO summit in Bucharest, V. Putin declared that the inclusion of the near abroad countries, and first of all Ukraine, into the North Atlantic Alliance structures was unacceptable for Russia. The political will to defend its position was clearly demonstrated by the Russian leadership in August 2008 in Georgia, when M. Saakashvili's attempt to resolve the South Ossetian conflict in favor of Tbilisi with the use of armed forces was harshly suppressed.

It seemed that such a demonstration of strength and determination would be sufficient to stop the scriptwriters of color revolutions throughout the post-Soviet space. However, Moscow definitely underestimated the aspirations of the US political elite to limit Russia's claims to regional hegemony, and also failed to take into account the main vector of the US policy evolution laid down by B. Obama – from the initial impulse aimed at building strategic partnerships with the leading centers of power in the world, to the consolidation of allies in Europe and Asia around Washington, with a toughening of policy towards the likely revisionist powers – Russia and China.

In 2013, Russian-American contradictions were supplemented by Russian-European inconsistencies in the vision of the future of the post-Soviet space. The EU political leadership was literally obsessed with the desire to demonstrate its growing global influence and to unleash the growing potential of the soft power of the united Europe. All Russian arguments and exhortations that Ukraine is a complex, heterogeneous country with different interests of regions and regional political elites, that attempts to sign political and economic association agreements with Kyiv in the version proposed to V. Yanukovich would undermine socio-economic and political stability in the country, not to mention that they do not meet Russian interests, were simply ignored.

M. Barroso and a number of other European political leaders put the Ukrainian leadership before the "historic choice" between Russia and Europe back in the spring of 2013. At the same time,

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<sup>109</sup> Speaking in Dublin in December 2012 during an Organization for Security and Cooperation in Europe (OSCE) conference, Secretary of State Hillary Clinton, commenting on Russian proposals to create a Eurasian Union comprised of Russia and a number of former Soviet republics, bluntly called the plan "a new attempt to Sovietize the region" and said the United States was "trying to develop effective ways to slow down or prevent that process".

<sup>110</sup> Brzezinski Z. (1998). *The Great Chessboard*. Moscow: International Relations, p. 137.

Russia was told that Moscow had no right to vote, let alone veto, when discussing the EU's plans for building relations with official Kyiv. The situation was increasingly acquiring the features of an acute conflict of interests.

In November 2013, Yanukovich refused to sign the association agreement with the EU after not receiving any preferences from the Europeans. At that moment, the domestic political crisis in Ukraine sharply escalated, culminating in the emergence of the so-called Euromaidan (revolutionary activity of the masses in the streets of Kyiv) and attempts to find a mutually acceptable political compromise in February 2014. The February 21, 2014 agreements between President V. Yanukovich and the opposition (and everything that followed) were a turning point in the development of the situation. The agreements were thwarted by the Ukrainian opposition with the complete non-interference and even moral support of Western politicians and diplomats the very next day after they were signed.

The behavior of the Western guarantors of the February agreements in Kyiv (the countries of the so-called Weimar Triangle – Germany, France and Poland) has discouraged many representatives of the Russian elite. For a quarter of a century after the collapse of the USSR, Russia has had a bad tradition of relations with Western partners on the issue of providing political guarantees (starting from the promises made to M. Gorbachev about NATO's non-expanding to the East). After the events of February 21-22, 2014 in Ukraine, the anti-constitutional coup that took place there, the seizure of power by the opposition, and the refusal of the European "guarantors" from their obligations, all statements about some "guarantees" from the West about the non-inclusion of a unitary Ukraine in NATO in the foreseeable future began to seem especially problematic.

These circumstances motivated the Russian leadership in the spring of 2014 to support the protests in the southeast of the Republic, aimed at decentralization of Ukraine's governance, and the so-called "Crimean Spring" – the process of Crimea's reunification with Russia.

In order to correctly assess the further course of events, it is necessary to take into account that for the United States the issue has always been much broader than just geopolitical contradictions in Ukraine. With its defiantly non-systemic actions in Crimea in February 2014 (in the Western interpretation – "annexation"), Moscow actually questioned Washington's ability as a world leader to achieve its goals and uphold the norms and principles of the post-1991 world order.

This set a significant precedent for other growing centers of power and undermined American "global leadership," so from Washington's point of view, the willfulness of the revisionist power (Russia) had to be resolutely curbed. Otherwise, US authority and position could have been shaken not only in Eastern Europe, but also on a global scale. The turn to containment of Russia within the framework of such an interpretation of the situation was inevitable and had a long-term character, and the intra-Ukrainian conflict itself acquired almost global significance.

Russia has morally and politically supported broad popular demonstrations in southeastern Ukraine, believing that this will serve as an additional impetus for the start of an inclusive intra-Ukrainian political dialogue, including on issues of state structure (decentralization, federalism) and the parameters of the country's new constitution, which in turn will stem Ukraine's movement towards NATO.

However, in response to widespread popular demonstrations in the East, the new Ukrainian authorities declared an anti-terrorist operation (ATO) in Donbas. After the effective (and in some

places extremely bloody) suppression by the new Ukrainian authorities of the popular uprisings in Kharkov and Odessa, a real war with local armed resistance and with the participation of volunteers arriving from Russia and other countries began in Donetsk and Luhansk regions, resulting in numerous human casualties (according to a conservative UN estimate, the death toll in Donbas exceeded 4,000 by November 2014).

The Minsk agreements of September 2014 and February 2015 put an end to large-scale military operations in Donbas and were the result of rather complex political compromises by all parties involved (the Ukrainian leadership, the heads of the self-proclaimed Donetsk People's Republic (DPR) and the Luhansk People's Republic (LPR), and the guarantor countries). The main problem with the Minsk agreements was that they could be implemented only if Germany and France, participating in them as guarantors, could put pressure on official Kyiv and force it to fulfill the signed documents (just as Moscow would have to persuade the leaders of DPR and LPR to make "difficult compromises" and return to Ukrainian jurisdiction). However, nothing of the sort was envisioned by Western partners from the outset.

In September 2014 A. Merkel saw the first Minsk agreements as an opportunity to give Russia a chance to withdraw from the conflict while saving face. However, this did not imply any serious concessions to the "separatists" in Donbas on the part of Ukraine, much less any active role of Western leaders in forcing official Kyiv to negotiate. When hostilities on the line of contact resumed in the winter of 2015, the sympathies of Western leaders predictably turned out to be on the Ukrainian side.

Moreover, since the fulfillment of the Package of Measures for the Implementation of the Minsk Agreements of February 12, 2015 (so-called Minsk-2) was problematic literally from the moment of their signing, the viewpoint according to which Ukraine was seen as a friendly, Western-oriented country that had fallen victim to "aggression" supported or even carried out by Russia was widely spread in the US and EU countries at that time.

Thus, the absolute incompatibility of Russian and Western interpretations of what happened in Ukraine and who was involved in the events was evident. Russia believed that the Minsk agreements were in essence already the result of a complex compromise, and that it was in the interests of all parties to achieve their immediate implementation in accordance with the sequence of actions prescribed in the document.

The prevailing view in the West has become that Moscow is the source of the crisis, since morally, informationally, politically and in other ways the Russian side supported the anti-government demonstrations in eastern Ukraine and did not allow the new Ukrainian authorities to suppress the demonstrations in Donetsk and Luhansk by force. On this basis, the main efforts of the West over all these years have been focused not on achieving the implementation of the Minsk agreements, but on the inadmissibility of "Putin's victory" (i.e., the settlement of the Ukrainian crisis on Russian terms).

This was acknowledged with utmost frankness by resigning Chancellor A. Merkel during her visit to Kyiv in August 2021. According to her, "the issue of the implementation of the Minsk agreements is structural... Russia is a party to this conflict, and therefore Ukraine is doing the right

thing when it refuses to negotiate with representatives of the separatists"<sup>111</sup>. At the same time, this did not prevent Merkel from delivering ritual words in support of the Minsk agreements, which "although have not led to a satisfactory situation", but "should be constantly worked on"<sup>112</sup>. Against this background, the revelations of the "exes" – A. Merkel, F. Hollande, P. Poroshenko – that they considered the Minsk agreements in 2022 only as a means of buying time to prepare Ukraine for a big war, do not look so sensational anymore.

It is not surprising that Kyiv managed to drag out the process of fulfillment of its own obligations for 7 years and impose on the other members of the Normandy Four (Germany, France, Russia) a discussion on the order of implementation of the Package of Measures (Minsk-2). From time to time, compromise formulas for a political settlement emerged, adjusting the sequence of steps prescribed in the agreements, suggesting combining the implementation of the points on ensuring security and the return of Ukrainian control of the border with the fixation of the autonomous status and political recognition of the status of the territories of Donbas outside of Kyiv's control (the Morel Plan, the Steinmeier Formula – the latter remained valid until February 2022 in accordance with the decisions of the Paris Summit in the Normandy Format in December 2019).

Following the results of the Berlin Summit in the Normandy format in October 2016, it was decided to instruct experts to develop an acceptable roadmap for the implementation of the Minsk agreements by the end of November (which was once again a serious concession to Kyiv, as it implied a shift from the concept of the Minsk agreements as a package agreement with a prescribed sequence of steps). However, this assignment could not be fulfilled due to practically insoluble contradictions regarding the sequence of implementation of the Minsk agreements.

After P. Poroshenko's failure in the 2019 presidential elections, there was a faint hope for a correction of the Ukrainian political course by the new young and energetic President V. Zelensky, but it quickly faded away. The transformation of V. Zelensky into a national-populist was facilitated not only by the balance of political forces inside the country and the high degree of organization and political consolidation of nationalist segments of the Ukrainian political spectrum, which guaranteed the pressure of organized interest groups and pushed the populist president, who did not have a solid political base, into the nationalist track laid out by P. Poroshenko<sup>113</sup>. Exogenous to Ukraine and the Ukrainian political process factors played a significant role as well.

The role of the external factor in the Ukrainian settlement is difficult to overestimate. Western countries (primarily the United States) have a decisive influence on the legitimization and maintenance of stability of the political regime established in Kyiv, so the influence of the United States and its allies on Ukrainian politicum, although not absolute, is rather significant. At the same time, American politicians have until recently succeeded in stimulating a consistently intransigent and consolidated position of the Ukrainian political class towards the possibility of a compromise solution. This trend has been especially strengthened since President J. Biden came to power.

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<sup>111</sup> Vlasenko V. (2021). Merkel in Kyiv: a farewell visit with elements of shuttle diplomacy. *DW*, 22th Aug. Available at: <https://www.dw.com/ru/merkel-v-kieve-proshhalnyj-vizit-s-jelementami-chelnochnoj-diplomatii/a-58952336> [Accessed 24/02/24].

<sup>112</sup> Strokan S. (2021). Chancellor is not your hetman. *Kommersant*, 22th Aug. Available at: <https://www.kommersant.ru/doc/4955795> [Accessed 24/02/24].

<sup>113</sup> Solovyev E.G. (2020). Ukrainian policy of seeking a settlement of the crisis in Donbas: the rut effect. *Russia and the New States of Eurasia*, no. 4 (49), pp. 37–45.

President Biden's US foreign policy keynotes – a speech to US diplomats at the State Department, a speech at the Munich Conference, a speech at the virtual G7 summit, and (which was especially important for official Kyiv) a speech on the next anniversary of Russia's "invasion" and "occupation" of a part of Ukraine – set the accents on the place of the US in the modern world.

The main emphasis was placed on the restoration of "America's traditional alliances" and on the thesis of the United States' "return" to world politics as an unconditional leader. The idea that there would be no more compromise or concessions to Russia's "aggressive actions" was a red thread in all of Biden's speeches. Biden emphasized with enviable constancy that he would "not hesitate to raise the price" that Russia would have to pay for its "reckless actions"<sup>114</sup>. Biden's inner circle and he himself demonstrated confidence in the effectiveness of working in coalition with Western allies against Russia.

President J. Biden's special statement of February 26, 2021, "on the anniversary of Russia's illegal invasion of Ukraine," was also received with particular enthusiasm in Kyiv. It emphasized that defending the sovereignty and territorial integrity of Ukraine remains "vitaly important for Europe and the United States". Seven years ago, Russia violated international law by invading Crimea and must pay for it. Verbatim (quote from Biden's statement): "On this somber anniversary, we reaffirm a simple truth: Crimea is Ukraine. The United States does not and will never recognize Russia's annexation of the peninsula, and we will stand with Ukraine against Russia's aggressive actions"<sup>115</sup>. It is clear that V. Zelensky's numerous statements about the return of Donbas and Crimea under the control of Ukraine were in full harmony with such attitudes of the American political elite and, thus, received powerful external support.

The matter was not limited to words. The United States and its allies (Britain, Canada, Turkey) stepped up military assistance to Kyiv (including the supply of lethal weapons) and the training of Armed Forces of Ukraine personnel. The political rhetoric of official Washington and the growing scope of military aid have become serious factors in the escalation of tensions in Donbas in 2021-22.

Seeking to make the most of the favorable political conjuncture, throughout 2021 Zelensky generated demands for Ukraine's accelerated admission to NATO (to curb "Russian aggression") and the EU (to create a showcase of democracy capable of having a powerful demonstration effect and creating problems for the "Putin regime"), consistently insisted on the revision of the "outdated" Minsk agreements.

The Ukrainian president was not afraid to escalate the situation and raise the stakes in Russian-Ukrainian relations. In mid-March 2021, V. Zelensky signed the Strategy of De-Occupation and Reintegration of the Temporarily Occupied Territory of the Autonomous Republic of Crimea and the City of Sevastopol, which clearly emphasized the return of the expropriated territories through a wide range of measures of not only diplomatic, economic, informational, humanitarian, but also military nature. On August 23, 2021, the founding summit of the Crimean Platform was held in

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<sup>114</sup> Remarks by President Biden on America's Place in the World. *The House*, 04/02/21. Available at: <https://www.whitehouse.gov/briefing-Whiteroom/speeches-remarks/2021/02/04/remarks-by-president-biden-on-americas-place-in-the-world> [Accessed 04/06/23].

<sup>115</sup> Statement by President Biden on the Anniversary of Russia's Illegal Invasion of Ukraine. The White House. 26/02/21. Available at: <https://www.whitehouse.gov/briefing-room/statements-releases/2021/02/26/statement-by-president-biden-on-the-anniversary-of-russias-illegal-invasion-of-ukraine/> [Accessed 02/07/23].



Kyiv with the participation of representatives of 46 countries and international organizations, where a declaration condemning the "Russian occupation" of the peninsula was predictably adopted.

The situation in Donbas remained tense throughout 2021. The number of shellings of the territory was increasing. For the Russian side, the Minsk agreements were an important instrument for conflict resolution, as they set out specific political commitments for Ukraine – constitutional reform, the law on the special status of Donbas, amnesty, a special law on elections and the need for it to be agreed upon with representatives of the areas of Donbas not controlled by the Kyiv government. However, through the joint efforts of the Ukrainian leadership and Western countries, the process of implementing the Minsk agreements was finally stalled.

At the end of 2021, in an effort to fix the provisions of the post-unipolar world, Russia tried to influence the countries of the West – through treaties with the United States and its allies on strategic stability and European security. The West responded with a refusal. These events were superimposed on the aggravation of the situation in Donbas and intensified shelling of the territory of the DPR and LPR by Ukrainian troops. As a result, the extreme tension in relations between Russia and the West at the turn of 2021-2022 shifted to a hot phase of military confrontation in Ukraine. In February 2022, the Russian Federation recognized the DPR and LPR, and on February 24 launched a special military operation with the stated goals of demilitarization and denazification of Ukraine and protection of the civilian population of Donbas from armed violence by official Kyiv.

Judging by the fact that negotiations between the parties to the conflict started already on the 4th day of the active phase of the special military operation, initially it looked like almost an operation to "force the Ukrainian leadership to peace" and the Western partners – to negotiations. In the spring of 2022, several rounds of negotiations took place in Minsk and Istanbul. They resulted in a document that set out Ukraine's specific commitments to enshrine a neutral status in the country's Constitution (under broad international guarantees by members of the UN Security Council)<sup>116</sup>.

It is known that the Russian side agreed to the withdrawal of troops from around Kyiv and Chernihiv as a goodwill gesture for the sake of creating a favorable environment for further rounds of negotiations and reaching an agreement. However, under the pretext of the events in Bucha after the withdrawal of Russian troops from the city (the circumstances of which have not yet been properly investigated), all responsibility for which was attributed to Russia, further negotiations were disrupted. In May, the Ukrainian side officially announced its withdrawal from the negotiation process. And after Kherson and Zaporozhye regions became part of the Russian Federation on September 30, 2022 as a result of a referendum, on October 4, 2022, President V. Zelensky issued a decree enacting the decision of the National Security and Defense Council of Ukraine on the impossibility of negotiating with the Russian Federation.

Already in the spring of 2022, the Ukrainian leadership and its Western allies actually decided to continue the armed struggle with the Russian Federation<sup>117</sup>. Initially, the calculation was based on the devastating impact of comprehensive Western economic sanctions on the Russian economy, which would supposedly force Moscow into a de facto capitulation, but this did not happen. After

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<sup>116</sup> Putin shows draft of 2022 peace treaty with Ukraine. *Kommersant*. 17/06/23. Available at: <https://www.kommersant.ru/doc/6053776> [Accessed 13/03/24].

<sup>117</sup> "This war must be won on the battlefield" – J. Borrell. *Gazeta.ru*, 09/04/22. Available at: <https://www.gazeta.ru/politics/2022/04/09/14718091.shtml> [Accessed 13/03/24].

the Ukrainian offensive in Kharkov in August-September 2022, and then after Russia lost control over Kherson (November 9) and withdrew Russian troops to the left bank of the Dnieper River, the narrative of a possible "strategic defeat" of Russia was actively promoted among Western and Ukrainian politicians.

At the peak of euphoria from military success in November 2022, V. Zelensky announced his own vision of a 10-point "peace plan" at a G20 meeting, which was actually an ultimatum whose main demand was the return of Ukraine's territorial integrity within the 1991 borders, including the Donbas republics and Crimea, as well as "reparations" for alleged damage to Ukraine since 2014.

Ukraine received from Western countries the necessary resources for the successful continuation of military operations, for the preparation of the offensive, and at the same time – substantial political support, which should have stimulated the Ukrainian elites and population to continue the armed struggle. On June 23, 2022, the European Parliament adopted a resolution granting Ukraine the status of a candidate for EU membership, and on the same day the EU Council granted the republic this status. The G7 has released statements of unconditional support for Ukraine's struggle at several summits, and Russia has been identified as one of the main US adversaries in the new national security strategy<sup>118</sup>. President J. Biden and members of Congress have repeatedly given V. Zelensky a warm welcome in Washington, and most importantly, it is estimated that Ukraine has received more than \$150 billion in military and financial aid from various sources<sup>119</sup>, which is comparable to its GDP in 2022.

Kyiv received a huge number of weapons and military equipment (everything it had requested and even more, except for aircraft). Moreover, the United States managed to dramatically increase the capabilities of the Ukrainian armed forces by creating an effective system for transmitting data to them from its network of reconnaissance satellites, long-range radar detection and control aircraft, and American signals intelligence and cyber operations centers. The Ukrainian armed forces' communications system is based on equipment supplied by Washington and uses the American Starlink system, which has no analogues in Russia. This assistance may be more important than the supply of lethal weapons. Ukrainian authorities, together with Western allies, were betting on the success of the 2023 summer campaign, which Zelensky envisioned ending in Crimea.

In 2023, against the backdrop of attempts at a "counteroffensive" in an effort to create an international platform of support for V. Zelensky's notorious "peace formula" with the participation of countries of the Global South, the Ukrainian leadership made efforts to organize a diplomatic offensive. Meetings were held in Copenhagen, Jeddah, and Malta. There was no evidence of the readiness of the "global majority" to seek a settlement on the basis of the Ukrainian plan rejected by Moscow. Attempts to agree on "terms of peace" without Russia's participation and then to force Moscow to fulfill them predictably proved unconvincing.

After the failure of the Ukrainian counteroffensive, recognized even by the US allies<sup>120</sup>, in the fall of 2023, the Western media started active discussions on a strategy to overcome the deadlock.

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<sup>118</sup> The White House. US National Security Strategy. 12/10/22. Available at: <https://www.whitehouse.gov/wp-content/uploads/2022/10/Biden-Harris-Administrations-National-Security-Strategy-10.2022.pdf> [Accessed 19/11/23].

<sup>119</sup> The amount of Western military aid to Ukraine since the beginning of the special military operation has almost equaled Russia's defense budget. *TASS*, 11/01/23. Available at: <https://tass.ru/ekonomika/16772611> [Accessed 15/02/24].

<sup>120</sup> Miscalculations, divisions marked offensive planning by US, Ukraine. *Washington Post*, 04/12/23. Available at: <https://www.washingtonpost.com/world/2023/12/04/ukraine-counteroffensive-stalled-russia-war-defenses> [Accessed

Western leaders promised to support Ukraine "as long as it takes" to win. By the winter of 2023-2024, Western politicians began to gradually adjust the formula for supporting Ukraine and shifted to more modest statements, such as the "as long as we can" assistance proposed by J. Biden<sup>121</sup>.

Timid voices have begun to be heard about the need to conclude some semblance of a truce or to freeze the conflict, at least for a while, because of the impossibility of Ukraine quickly replenishing its losses and resources. Or a search for "victory conditions" that would help Kyiv to fix the current situation on the battlefield and present it to the population of the country and the world as a significant victory over the aggressor<sup>122</sup>.

The problem, however, is that the crisis in Ukraine, absolutely peripheral by any standards, being a conflict within the country that had no serious impact on the state of affairs in the world, has gradually, mainly through the efforts of the United States and Western countries, outgrown the framework of interstate and even regional conflict. The Western countries in recent years (at least since 2014) have made such serious stakes, hyperbolized the situation to the level of an existential conflict against the forces of "absolute evil", the confrontation between "democracy" and "authoritarianism", that it is extremely difficult for them to engage in a rational search for compromise or, even more so, to step aside.

Now the situation in Ukraine is interpreted by Western analysts as a systemic game changer, i.e. as a conflict that changes the rules of the game on a global scale. The duration of the "unipolar moment" in the system of international relations, as well as the parameters of the emerging new world order, are indeed beginning to depend on the outcome of the conflict (meaning the interests of the parties involved and the actions of external actors).

Within the framework of the conflict, the US has defined its strategic goals. For Washington, these are to inflict a "strategic defeat" on Russia or to "exhaust" it, i.e. to weaken Russia politically, militarily and economically in such a way as to eliminate it from the list of key actors in determining the global balance of power. This goal is supposed to be achieved by supporting the "proxy" country in the conflict – Ukraine – and provoking economic and political destabilization of Russia under the combined influence of sanctions, propaganda campaign and military losses.

Judging by the fact that Ukrainian President V. Zelensky continues to express confidence in the support of the United States and commitment to his own "peace formula"<sup>123</sup>, the possibility of a productive dialog with Moscow on security issues is still a long way off. It is too early to draw conclusions about the prospects for the development of the situation, but it is very likely that the final settlement of the conflict in Ukraine can only be achieved within the framework of a complete reset of Russia's relations with the United States and NATO and the transformation of the modern world order, which is still only in its initial phase.

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<sup>121</sup> Joe Biden says US will back Ukraine 'as long as we can'. *Financial Times*, 13/12/23. Available at: <https://www.ft.com/content/c5b8a94f-4bf9-422f-b4de-db5dcfc7ca0a> [Accessed 15/02/24].

<sup>122</sup> Rachman G. (2023). Ukraine and its backers need a credible path to victory. *Financial Times*. 18th Dec. Available at: <https://www.ft.com/content/75da21e8-8209-4144-bd18-3c3f45d4c95c> [Accessed 15/02/24].

<sup>123</sup> Vladimir Zelensky summarized the results of the year. *Gazeta.ru*, 19/12/23. Available at: <https://www.gazeta.ru/politics/2023/12/19/18033523.shtml?ysclid=lrot9pssxc789481741&updated> [Accessed 15/02/24].

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