

Editor's Note on the Publication of 'Russia and The World: 2015. IMEMO Forecast'

The publication of IMEMO's annual forecast provides a unique opportunity for the English-speaking world to gain insight into the thinking and perspective of an established part of the Russian academic and policy community on issues of great importance for European security and international affairs more widely. This publication has not been peer-reviewed and instead seeks to provide a platform for the presentation of Russian scholarly work with great policy relevance to a wider audience. This dissemination does not equate to an endorsement, but rather is intended to provoke discussion and stimulate constructive debate between scholars in EU member states and their Russian counterparts. It is hoped that this mutual engagement will shed light on currently problematic issues and increase understanding of the different positions and potential trajectories that the current situation could take.

The publication, which outlines the broad trajectories, causes and consequences of Russian geopolitics, political economy and foreign policy, provides many interesting insights and points of view. Many of these converge with diverse currents of Western thought and academic analysis, showing that there is not necessarily a divide of opinion or analysis between the West and Russia and responses that highlight possibilities for rapprochement on this basis are welcome. However, there are also significant points of divergence, which we hope will provoke other critical engagements – we hope to provide a channel for constructive discussion of these issues..

There are also numerous silences and omissions, notably in relation to the role of Russian domestic policy in creating the situations discussed in the forecast, which relates to the theoretical perspective of the authors and IMEMO's institutional remit. However, as many readers will note, there are also significant silences regarding Russia's role in the origination of the Ukrainian conflict and its continuation, but also with regard to Russia's responsibility for the currently tense state of relations with the EU and the West more widely. We therefore hope that you will take up this invitation to engage with IMEMO's scholarly work and the interpretations and analyses they provide, now for the first time in English. We welcome critical interventions that seek to speak into and about these silences and the assumptions and positions that they may indicate. In the tense situation that we find ourselves at the time of writ-

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ing, such dialogue and mutual engagement are more necessary than they have been for some time.

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Russia and the World: 2015. IMEMO Forecast¹

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INTRODUCTION

2015 might have been a year of triumph for Russia, as it will be the 70th anniversary of the victory over Nazi Germany and the liberation of Auschwitz and the capture of Berlin by the Soviet Army. However, in 2014, while the world was commemorating the centenary of the outbreak of World War I, Russia's relations with the West took a sharp turn for the worse. 'Is there a way of avoiding a rerun of the Cold War?' was the question many soberly minded politicians and analysts in the West kept asking throughout 2014.² Few, even Zbigniew Brzezinski³, who argued that without Ukraine, Russia would never be able to become an empire again, could foresee the role Ukraine would soon play in the transformation of the post-bipolar world order.

The Ukrainian crisis was the immediate trigger of the aggravation in relations between Russia and the West, only a tiny shift among far larger, tectonic processes. The way both Russia and the West approach the crisis and see its future settlement might have been very different from what it is, but for the chain of conflicts and revolutions that swept many post-Soviet states in recent years, not to mention the Arab Spring. The Ukrainian crisis accumulated all of the unresolved problems in relations between Russia and the West over the past quarter of a century, which was a period of 'omissions' and wasted opportunities for Russia and the West to achieve genuine understanding and trust. All of the grievances, insults and misunderstandings that had piled up on both sides, but in particular, in Russia, suddenly emerged in the limelight of world politics in 2014, Ukraine being the focal point. The scale and severity of contradictions prompted some to speculate that the 'Cold War' was about to have a rerun.

'Russia and the World', a regular yearly forecast of IMEMO, which began in 2003 and is now in its 13th year, traditionally consists of two parts – economy and foreign policy. It pinpoints the most recent developments in the world economy and policy that would be of particular significance for Russia in the short-term future. This is the first time that the shortened version of the forecast is published in English in an EU country. Apart from presenting their views in three main spheres – geopolitics, political economy and foreign policy – the authors regard this publication as a stim-

ulus for dialogue and mutual better understanding between Russia and the world, which is particularly important in these uneasy times.

GEOPOLITICS

One of the key claims made in the lead up to, but also specifically as a result of, the Ukraine conflict is that Russia and the West may be involved in the early stages of a new Cold War. However, IMEMO experts have identified four key differences between the current geopolitical situation and the 'classical' Cold War years that undermine such analyses. The IMEMO forecast also argues that claims of a 'New World Order' neglect the deficiencies of the current international system which leave it unable to deal with the simultaneous technological development of global societies and their regression into earlier forms of interaction in the international arena.

NOT A NEW COLD WAR

The four basic features that make the realities of 2014 different from those of the Cold War era are as follows.

Firstly, such basic principles of the Cold War era's system of international relations as nuclear deterrence and mutual assured destruction no longer work the way they did once, as weapons of mass destruction (WMD) have become widely spread, the non-proliferation regime is ineffective and China's nuclear arsenal (the world's third largest, inferior only to those of the United States and Russia) is non-transparent. Besides, China is not a party to the relevant international treaties.⁴ This by no means indicates that the latest worsening of relations with the West has had no impact on the military sphere. On the contrary, it lends a new meaning and reasons to Russia's efforts to build up its defences and upgrade the military potential (which IMEMO experts regard as detrimental to social-economic development),⁵ and to the upsurge in NATO's activities. The dialogue over all aspects of arms control, except for the strategic offensive arms (START), is stalled. In the foreseeable future this sphere, which oddly enough saw its heyday during the Cold War period, may become a hostage of the current crisis.

Secondly, the deep inter-dependence of the global economic system is the safety catch that makes Russia and the West (not only Europe, but also the United States) refrain from taking irreversible steps. That was seen pretty well in the way sanctions were being taken against Russia, as well as in the Western countries' divergence of opinion on the issue of sanctions. A hard-line approach to Russia prevails inside the US elite, among both the Republicans and the Democrats. The lifting of sanctions is unlikely to happen even in the medium term. It must be remembered, though, that the sanctions were introduced under President Barack Obama's decrees, without congressional approval. The Ukraine Freedom Support Act (HR 5859) the US Congress voted for in December 2014, in combination with tighter sanctions, leaves

room for 'exceptions' (that can be made by the decision-making executive authorities, in particular, if the march of events takes a favourable course, the situation in Ukraine stabilizes and Russian-US relations achieve relative normalization).

Furthermore, the EU response has been far from unified. The sanctions drew public criticism not just from the business community, but also from the leaders of some EU member-countries. While Poland, Britain, the Netherlands and Sweden actively supported the sanctions, France, Italy and Spain, and, until the autumn of 2014, Germany remained more passive. Hungary, Slovakia, the Czech Republic, Greece and Finland were passive or active opponents of the sanctions. The countries that were the hardest-hit by Russia's retaliatory measures, in the first place, Finland, have managed to devise technical ways (first and foremost, dairy-related products) of bypassing the counter-sanctions as early as the autumn of 2014. And two EU membership aspirants – Serbia and Turkey – refused to join the sanctions in defiance of pressures from Brussels.

Thirdly, many global security problems, such as the instability in Afghanistan (in particular, against the backdrop of the International Security Assistance Force's pull-out) and Pakistan, the nuclear problems of Iran and North Korea, the conflicts in the Middle East, drug trafficking, WMD proliferation and terrorism – cannot be addressed effectively without Russia taking part, or at least without its consent or neutrality. This is precisely the reason why the harshest comments and recommendations by US analysts often end on the same note: 'from Russia's containment to engagement.'⁶ The call for containment is central to publications by the leading US think tanks.⁷ However, both experts and analysts have been pointing out that Russia's containment may be effective only on the condition of trans-Atlantic unity, something one cannot be absolutely certain about.

Fourthly (and lastly), with the growth of new emerging economies, mostly that of China, the international system is no longer as bipolar as it was during the Cold War, nor as US-unipolar as at the beginning of the 21st century.

A NEW WORLD ORDER?

The contours and main trends of world order transformations developed inconspicuously. The Ukrainian crisis worked like a lens that focused the entire complex of both old and new contradictions, which no political correctness was able to conceal, aggravated them and spurred up the leading (and second-tier) global players to press for their national interests in a turbulent world. In 2014 in Russian political discourse there was no mentioning of the country's role as a 'counter-balance' and 'stabilizer' of world international relations, as was proclaimed in the new version of Russia's foreign policy concept a year before.⁸

The emerging world allows no unequivocal description – it is rather a weird and explosive blend. In general, we are witnessing a return to the 20th century *realpolitik*,

which is projected to the realities of the 21st century. That process began in the 2000s and it is still in progress. Here one finds traces of the New Middle Ages, with multiple, multi-dimensional and multi-vectored interests, and the methods of running the world that fall way behind the modern realities.⁹ The traits of feudalism stand out ever more graphically. In 2014, Ukraine saw a clash of the financial and political interests of a handful of regional leaders and oligarchs, each having their own army: in fact, it was the feudalization of a weak state. Similar trends are observed in Syria and Iraq. The similarity to the Great Game of the early 20th century – the struggle for territories and resources – is striking, indeed. Behind the veil of humanitarian interventions one cannot but see the features of ‘new colonialism.’ However, in contrast to the ‘classical’ colonialism (British, French and Belgian colonialism of the 19th and 20th centuries) humanitarian interventions bring about no new institutions of power and law. Nor do they form a new, enlightened elite or create conditions for investment (apart from beneficiaries who are known in advance) or an economic upturn.

International law and key institutions continue to degrade. The meaning of security is mutating: in a situation where the IS Islamic extremists declare a real war on the West and on Russia, the latter two remain engaged in confrontation in the very heart of Europe, which has already eroded the effectiveness of such crucial negotiating formats as the sextet for Iran.

The re-emergence of older conceptions of international politics is occurring in the new context of globalization, regionalization and integration. It is clear that ‘vintage’ approaches to foreign policy are inadequate to the global financial, trading, economic military and political challenges and threats of the contemporary period. These out-dated instruments do not contribute to the relevant awareness of national interests and capabilities. While recognizing the death of the European Neighbourhood Policy (ENP), which has failed to stand the test of the crises in the Arab world and in Ukraine, analysts argue that the European Union should revise its policies towards its neighbours in the south and in the East along the lines of ‘down-to-earth realism.’ Setting and achieving targets and goals that match the European Union’s realistic capabilities in the current situation would be a responsible thing to do without attracting charges of cynicism.¹⁰

The surge in the intensity of propaganda and counter-propaganda in Russia and in the West over the Ukrainian crisis may be regarded as a compensation for the lack of realistic, balanced policies. It merely exacerbates tensions, hinders the normalization of relations, and turns both sides, but first and foremost, Russia, into hostages of election campaigns and public sentiment.

Another important current trend in world politics is the struggle for maximum independence (which is specifically emphasized in Russian and Chinese policy documents), and the preservation or enhancement of the status in the emerging new global balance of power. Alongside this trend however, creating coalitions is be-

coming the most important, mandatory and inevitable tool of gaining a firmer foothold in the context of globalization, which is true even of the strongest powers and makes them redouble efforts for implementing integration projects. IMEMO experts argue that it is in fact the tough competition among the integration projects, namely, between the EU Eastern Partnership and Russia's initiatives of Eurasian integration that provoked the Ukrainian crisis in November 2013.

Amid the sharp worsening of Russian-Western controversies both parties have stepped up efforts to accelerate integration processes in both the East and the West. The United States is working tightly in conjunction with its partners in Europe and the Pacific. Russia has been doing the same in Eurasia, Asia and Latin America within the framework of non-Western institutions and formats – the Customs Union, the Eurasian Economic Union, the Collective Security Treaty Organization, the Shanghai Cooperation Organization and the BRICS, thereby trying to a) retain parity in the growing partnership with China, b) preserve its leadership in the Eurasian integration and c) avoid isolation in the context of sanctions. In the first few months of 2014 Russia's stance and actions regarding the crisis in Ukraine cost it its seat at the working table in the G8 group; Australia suggested expelling it from the G20; and its contacts with NATO and the United States have been minimized.

However, Russia's worst problem in 2015–2016 in the context of its confrontation with the West will be economic stagnation, which has come together with the oil price slump. The pressure of sanctions on Russia was not the main cause of the economic crisis, but it considerably aggravated it. Also, sanctions will be a considerable obstruction on the way out of the crisis.

POLITICAL ECONOMY

In the economic sphere in 2015 Russia would face a severe challenge – the of economic stagnation in the country being aggravated by the drastic fall of energy prices and economic sanctions introduced by the West. IMEMO experts analyze the causes and consequences of the current crises domestically before going on to look at the most pertinent developments and trends in the World Economy.

THE RUSSIAN ECONOMY

Russia's economic growth in 2013 slowed down from 3.4% to 1.3%. The need for transition from the oil and gas export-fuelled growth to growth on the basis of re-industrialization and technological breakthroughs in the domestic economy proper became clear to the naked eye. And in 2014 its urgency became clear. The unresolved problems of the Russian economy overlapped with the adverse effects of a sharp fall of the world oil prices and the geopolitical factor: the international sanctions first and foremost. According to Finance Ministry estimates Russia's losses from plummeting oil prices totalled no less than \$90 billion, and its losses from sanctions another \$40 billion.¹¹

The financial sanctions, which stripped the Russian companies and banks of a chance to borrow on foreign money markets, proved most painful. Sanctions against Russia's oil and gas sector began to make themselves felt (for the time being, not to the full extent). As a result, alongside the Ruble's slump and the surge of inflation rates in 2014 there followed another 50% drop (according to the IMEMO forecast) in the growth of the Russian GDP to 0.5%–0.7%, which nearly coincides with the post-forecast evaluation the Economic Development Ministry made public in January 2015.

Accurately forecasting Russia's economic development is practically impossible – the uncertainty of fundamental development factors is too great. IMEMO estimates that under the most optimistic scenario GDP growth will not exceed 0.1%. According to the Economic Development Ministry's estimates published in January 2015, GDP may fall by 3%. International rating agencies see a future decline of between 3% and 5% in the Russian GDP, although a recovery may be expected in 2016–2017. However, IMEMO also identifies three fundamentally new trends that developed in 2014, which are in stark contrast to the preceding period.

Firstly, fixed capital investments in the first three quarters of 2014 were 2.5% less compared to the same period of 2013. Over three quarters of the 2014 direct foreign investment into the Russian economy (earlier made mostly by EU investors) reduced sharply to \$21.2 billion (a record-low since 2005). Net private capital outflows from Russia in 2014 more than doubled to above \$150 billion.

Secondly, Russian imports shrank noticeably, by more than 8% to \$263 billion in January–November 2014. The slump of domestic demand under the influence of the GDP growth slowdown and a worsening of Russia's relations with the key partner countries were the main reasons why imports nose-dived.

Thirdly, and lastly, real disposable incomes of the population came under strong pressures and inflation jumped to above 11%.

IMEMO experts also examine the main causes and factors for Russia's ***vulnerability to sanctions***:

- A raw materials export-dependent economy (the share of oil and gas in the export of goods and services is about 60%; with metals, timber and fertilizers included, it is more than 70%, yielding nearly half of the federal budget revenues).
- Manufacturing industries' and retailers' great dependence on imports (90% in the machine tool-building industry, 80% in electronics, 60%–80% in heavy machine-building, 70%–90% in the light industry, 70%–80% in the pharmaceutical industry and more than 40% in retail trade).
- Financial vulnerability. The breakdown of Russia's international reserves looks as follows: hard currencies – 15%, gold – 10%, and the government securities of industrialized countries, including US treasuries – 75%. A large amount of Russian property is registered outside the country – in Cyprus, British offshore zones, the

Netherlands, Switzerland, and Ireland. Russia's Eurobonds are placed in Luxembourg. The capitalization of Russian companies depends on seven or eight global investment banks trading on the London exchange. Visa and MasterCard payment systems encompass nearly 100% of the market. The payment system SWIFT is used for inter-bank settlements and is dependent on international co-operation. The Russian economy's credibility is heavily dependent on the opinion of the international rating agencies Standard & Poor's, Moody's and Fitch, which are not always immune to political influence.

Major problems are facing the Russian ***fuel and energy complex because sanctions are becoming more systemic***. Restrictions have been imposed on key production technologies (deep sea extraction in the Arctic and deposits of unconventional hydrocarbons) and supported by the industry's leaders (the United States and Norway). They undermine both industrial and financial foundations, which are critical, for the introduction of sanctions occurred at the same moment as the oil price fall on the world market. On the other hand, the world oil price slump has made many major offshore and Arctic oil projects unprofitable, thereby releasing the funds the Russian oil and gas companies had reserved for them. This has eased the debt burden, facilitated nature conservation and reduced unfavourable climate change. In principle, the traditional deposits can maintain oil production at an acceptable level in Russia till 2035.

In general, the anti-Russian sanctions have caused a considerable negative impact on the domestic businesses. Most Russian companies (including those outside the immediate scope of the sanctions, in other words, absent from the sanction lists and operating outside the financial sector and the oil and gas and defence-industrial complex) have noted such effects as restricted access to borrowing and know-how, growing problems of cooperation with foreign partners (even in the spheres to which some sanctions do not apply) and also consumer confidence decline, fraught with a further shrinkage of demand. The sanctions' role in the consumer confidence decline is limited. In contrast, the curtailment of cooperation in the financial and technological spheres is of critical importance. While technological restrictions will have a delayed effect (their influence on oil production may manifest itself no earlier than in two or three years' time), the limited access to the European and US money markets has already caused tangible harm to Russian businesses.

For the Russian banks on the US and EU sanction lists (first and foremost, Sberbank, VTB Bank, Gazprombank, Rosselkhozbank and Vneshekonombank) the door to western financial markets was in fact shut in August 2014. The search for alternative sources of financing, in the first place, in the Asia-Pacific countries, failed to yield satisfactory results yet. In comparison with the lost opportunities in the West access to Asian financial markets proved far harder to gain, and the cost of borrowing there is higher.

The cost of borrowing on the Chinese market was far higher than on the European or American markets even before the sanctions and it naturally went up afterwards. However, all system banks have already received considerable government support, and approximately \$15 billion was allocated for assistance to the remaining segment of the Russian banking system.

Of the overall amount of liabilities the sanctioned oil and gas sector companies will have to settle \$62 billion. In all, Russian companies are expected to pay about \$106.7 billion on foreign bank loans and bond loans. Most companies (Rosneft possibly being the sole exception) will be able to do that on their own, without asking the government for a helping hand, but for that they will have to use part of the resources that might have otherwise been spent on capital investment. The risk of ensuing negative effects on the investment process is more than obvious. Nevertheless, some positive trends were revealed in this sphere in 2014. Foreign debts of Russian commercial banks decreased by 25% and those of companies by 16%.

Sharp market fluctuations in the second half of 2014 were an extra factor that exacerbated the economic consequences of sanctions.

WAYS OUT: REFORMING THE ECONOMY AND IMPORT SUBSTITUTION

Nevertheless, the starting conditions for transition to a new 'reindustrialization' model of Russian economic growth, its urgency stemming from the current complex economic and geopolitical situation, are already in place and some are quite promising. Russia's foreign trade surplus increased by nearly 2% to \$186 billion. Even in the context of growing net capital outflows the current account surplus is above \$40 billion. Despite falling substantially, gold and foreign exchange reserves still stand at \$386 billion, an amount large enough to finance Russia's imports for a 15-month period or to cover about 65% of Russia's total foreign debt. The latter decreased by \$130 billion (by 18%) in 2014. Approximately \$170 billion remains in Russia's national sovereign funds. The Ruble's fall against the dollar made manufacturing assets and human resources far cheaper, thereby increasing Russia's investment attractiveness and export efficiency. Lastly, public debt as a proportion of GDP is far lower in Russia than in most of the world's key economies.¹²

This transformation in the model for economic growth may benefit a great deal from the already taken measures to stabilize Russia's banking system and to spend part of the reserve funds on major infrastructure projects, which will likely have a multiplier effect on the economy and from the possibility of public support for a number of industries and companies of strategic importance. These measures may spur economical and technologically advanced *import substitution*. In the *civilian sphere* import substitution is quite realistic; it can be achieved through tapping the available production potential in a number of manufacturing industries. According to the federal state statistics service Rosstat most manufacturing companies are currently running at a capac-

ity utilization rate of no more than 60%.¹³ However, the opportunities for achieving import substitution through building new operations and upgrading the current ones are rather limited. So far investment into the fixed assets has been shrinking. The Economic Development Ministry hopes that it may go up by 1.6% in 2016 and by 2.9% in 2017, which is surely not enough. Manufacturing industries are experiencing a dire shortage of own funds with which to implement major import substitution projects.

In the military sphere the program for re-arming the national armed forces relies by and large on domestic technologies. As far as military-technical cooperation between Russia and Ukraine is concerned, contacts in this sphere have been steadily on the decline since the beginning of this decade. Ukrainian products are absent from practically all current or future projects. Nevertheless, until just recently Ukrainian contractors were involved in the production of a long list of Russian military hardware of varying complexity. A program for creating substitutes for products currently available from Ukrainian providers will require heavy funding and no less than three to four years to accomplish. Pending the introduction of Western sanctions the balance will not change fast even in arms trade. Russia's sales of **armaments** stand at \$15.2 billion, almost half of it with BRICS countries. The imports of weaponry (excluding the Mistral helicopter carriers) fluctuated in the bracket of \$100 million to \$150 million. The figures embrace French electronic equipment for aircraft and tanks and drones, and electronic equipment from Israel. Russia also had contacts with Italy, Germany, Sweden, and the U.S. (for supplies of helicopters to Afghanistan).

As we said earlier, the real problems Russia is grappling with lie in the financial sphere and particularly in the sphere of dual technologies. If the current tendencies stay unabated over the medium term, the sanctions may exert a depressing impact on the country's economic development.

WORLD ECONOMY

In 2014, the tide turned in the **world oil market**, and the odds are that the current situation will last. A ten-year period of relatively high oil prices, with only a brief decline resulting from the world economic crisis of 2008–2009, could not but bring about the current state of affairs. As usual, the world economy's response to the high prices was two-fold – more efficient consumption and growing oil exploration and production. Unconventional and renewable sources of energy started to boom.

Oil consumption in the industrialized countries has been steadily on the decline since 2006. In the other countries it has been rising, but not as fast as had been originally anticipated. The reason is that the industrializing countries, above all, China, have been using oil with greater efficiency. But as this group of countries' economic growth rates are generally higher, their aggregate oil consumption volume keeps growing. As a result, the average annual oil consumption growth in the world reduced in the post-crisis period to 1.0% or 1.1% from 1.5% in 2001–2008. The shale

revolution in the United States made the decisive contribution to changing the situation on this market. The market supply is firmly above demand, with the changed oil price dynamics being the inevitable effect.

In all such situations in the past OPEC cut production to restore the demand-supply balance and maintain prices at an acceptable level. Saudi Arabia was OPEC's main balancer because only that country was able to reduce or step up production by several million barrels a day. Aware of its previous experience, in 2014 OPEC refused to cut production. In a normal situation exporters find it reasonable to lower outputs to keep prices high rather than maintain production rates at a time when prices are falling. In the latter case missing incomes may turn out to be far greater. But in the current situation the strategy of retaining the share on the market is more effective in the long term. The point is that a price decline makes high cost oil fields loss-making. This is a way of achieving a balance of demand and supply. Saudi Arabia and other oil producing countries find it far more reasonable to sequester their budget spending but retain their share of the market.

The more so since in several years to come that share may be taken over by Libya, Iraq and Iran. Iraq may come close to Saudi Arabia's level of production after the Islamic State problem has been settled, and Iran will be stepping up oil production as sanctions against it will be eased. If these likely scenarios do materialize the three mentioned countries will be able to compensate for an oil production shortfall of 10 million barrels a day.

Significantly, IMEMO analysis refutes the widespread delusion of a price conspiracy between Saudi Arabia and the United States intended to undermine the Russian economy.

There is practically no way of forecasting a level where the prices will stop. A balance may be achieved at \$60 per barrel, or at \$40 per barrel. The deeper the prices fall, the sooner demand will start to grow, but this process may take a whole decade, the way it happened in the past.

However, even with such a new factor as shale oil production in the United States and some other countries taken into account, a new intermediate balance on the world oil market will be possible in the second half of 2015. According to international rating agencies, the average annual price of Brent – Russia's benchmark oil blend – may stabilize at \$50–\$70 per barrel. This would be rather comfortable for the Russian economy. But the Economic Development Ministry has already drafted a development scenario based on a \$40-dollars-per-barrel assumption.

The situation on the market of gas is pretty much the same. Critical phenomena in the Russian economy are getting worse against a generally favourable world economic background.

With regard to **Economic Growth**, the world economy is gradually getting back to high growth rates. During the past two years – 2013–2014 – the world economy was

growing by 3.3% a year.¹⁴ In 2015, the growth rate will reach 3.9% percent according to IMEMO forecasts, and 3.8% according to the IMF (October 2014), which signifies an obvious acceleration in contrast with the previous two years. Even according to the most conservative IMF estimates (January 2015) the world GDP will be up by 3.5%.

IMEMO forecasts a 3.2% economic growth in the United States. This basically coincides with forecasts by the IMF (January 2015 – 3.6%) and the European Commission and is the highest-ever parameter in the post-crisis period. The EU economies, after the 2012 fall by 0.3% and the slight growth by 0.2% in 2013, according to IMEMO forecasts, will show a 1.2% growth in 2014 and a 1.3% growth in 2015. These parameters are close to the European Commission's own forecasts that emerged shortly afterwards: 1.3% and 1.5% respectively. The Eurozone economies, after the production decline in 2012 and 2013 by 0.7% and 0.4% respectively, will grow in 2014, according to the IMEMO forecast, by 0.7%, and in 2015, they will grow by 0.9 percent (according to the European Commission, they will grow by 0.8% and 1.1% percent respectively). In other words, 2015 will see the first ever growth by all Eurozone and EU countries since 2007.

The group of industrializing countries and economies in transition, having shown high growth rates of 7.5% in 2010, saw a decline in their GDP growth rates for three years running (6.2%, 5.1% and 4.7%). In 2014 their economic growth rate could accelerate to 5.0%, and in 2015, to 5.1% (October IMF estimates – 4.9%). After the 2010 surge by 10.4% the Chinese economy, over the three following years, slowed down somewhat (to 9.3%, 7.7% and 7.7% respectively). The slowdown will continue in 2014, and in 2015, according to our estimates, China's GDP can go up by no more than 7.2%. In 2014 India's GDP will grow by 5.5%, and in 2015, by 6.3%. In 2014, according to IMEMO forecasts, Brazil's GDP will be up by a tiny 0.5%, and in 2015, by 1.5%.

The world financial system in 2015 will experience the positive influence of the following factors: global economic recovery; the beginning of an upturn in another long economic cycle; the US dollar's firming as a possible long-term trend. Though considerable risks remain if the industrialized countries embark on a more confident growth path their financial systems may leap over shocks and stresses, which might otherwise trigger a systemic risks reaction and a dive into another crisis.

Russia's share in world trade is not very big, and its exports are unlikely to decline in physical terms, while its lower value will work as an incentive for the economies of the importer countries. Russian imports will dwindle sharply because of the 'war of sanctions' and the decline in demand due to price hikes.

FOREIGN POLICY: POSITIONING AND DIMENSIONS

Although Russia's main efforts in 2014 were directed towards non-western partnerships, in 2015 the western vector will remain among the key priorities. IMEMO experts traditionally cover in special chapters the current and forthcoming trends with spe-

cial focus on the relations with Russia in the foreign policy of the United States, the European Union, countries of the Asian-Pacific region, the Middle East, and naturally, the post-Soviet countries. Of even higher importance for Russia in the time of tensions with the West become the relations within non-Western integration formats: the Eurasian Economic Union, the CSTO, the Shanghai Cooperation Organization and the BRICS. Here the key dimensions of Russian foreign policy are highlighted.

THE WESTERN DIMENSION

In relations with *the United States* positive shifts are unlikely. IMEMO experts believe that Washington, in 2015, will stick to a rather hard line towards Russia even if in Ukraine the situation gets better and hostilities come to a halt. In scale the United States' foreign policy strategy goes beyond the pressure on Russia over the situation in the south-east of Ukraine. The Obama Administration is determined to punish Moscow for 'misbehaviour', understood as the whole combination of approaches and actions regarding a number of issues on the international political agenda in 2012–2014: Syria, economic and political interaction with Iran, most problems in relations between Russia and NATO, the Snowden affair, and others.

The existing regime of sanctions towards Russia will last at least till the end of 2015. The Obama Administration will do its utmost to keep its hands on the controls to run the process – the possibility of imposing or lifting sanctions under presidential decrees – and to prevent Congress from passing extra bills on the introduction of economic sanctions. Only the return of the Ukrainian theme and relations with Russia to the public political agenda may push the Republicans towards taking harsher measures that would complement the HR5859 Ukrainian Freedom Support Act (of December 13, 2014).

Relations with Russia will be absent from the Obama Administration's list of priorities in 2015. But the harsh rhetoric towards Moscow and the policy of sanctions will continue. However, against this adverse background interaction and even cooperation may begin to be gradually restored in areas of interest for Washington, such as the struggle with international terrorism, the situations in Syria and Iraq, the Iranian nuclear program, and the situation in the Korean Peninsula. In trade with Russia the United States will stick to selective pragmatism. According to the Federal Customs Service, Russian-US trade in January–November 2014 grew by 7.5% (to nearly \$27 billion), mostly with an increase of Russia's import. The share of the United States in Russia's foreign trade went up from 3.3% to 3.7%. Moreover, irrespective of sanctions a delivery of Russian rocket engines worth \$1 billion starting from 2016 was agreed in December 2014.

Most of about 700 companies – members of the American Chamber of Commerce in Russia (including 63 with a turnover of more than \$25 billion) – do not plan to leave Russia, which again shows the level of economic interconnectedness of the current situation.

The European aspect has remained a determining one for foreign economic relations. Moscow's key interests in the economic and security-related spheres have remained unchanged. The priority of the European track is seen in both statistics and the official foreign policy rhetoric.

In the structure of Russian trading and investment ties Europe obviously takes a priority position, and this situation cannot change overnight even due to geopolitical collisions (including mutual sanctions). In January–November 2014, despite the decline in mutual trade the share of the EU in Russia's foreign trade stood at 48.5% in export, at 52.5%, and in import, at 41.5%. *This exceeds by far the overall trade with the BRICS countries, the Eurasian Economic Union, the United States and Canada.*

At the same time the European Union's export to Russia reduced by more than 10% to \$109 billion, in the first place, due to sanctions. In other words, the EU's sanctions-related losses exceeded \$12 billion, including \$6 billion losses in the agricultural-food products trade.

Divergence of opinion regarding relations with Russia will remain among the European Union members and inside individual EU countries throughout 2015, but Brussels will manage to adhere to a consolidated policy. Some extraordinary circumstances cannot be ruled out, though. The IMEMO forecast, finalized in the last days of 2014, two weeks before the January 2015 tragedy in Paris, said: 'Paris's stance may be influenced by the need for Russia's urgent involvement in the struggle with the threat of an onslaught by radical Islam (for France this threat is both external and internal) – a consideration that may be placed above all others.'

A drastic revision of the EU's anti-Russian sanctions is unlikely to take place before spring 2015, even with the account of the appointment of new members of the European Commission and the discontent in European business circles or separate member-nations over the forced shrinkage of trade with Russia. Along with it, one should reckon with the fact that pressure by way of sanctions matches the general policy of eliminating Europe's excessive economic dependence on Russia.

It would be equally incorrect to explain the critical assessment of Russia's actions in Crimea and the conflict in Ukraine by the majority of Western countries by traditionally strong Euro-Atlantic links only. A common understanding of the basics of international order is very important here. National specificity, for instance, the Germans' collective and individual memory, also affects the countries' positions.

In **Germany** the government and the parties of the ruling coalition do not have considerable contradictions on the sanctions. They are also supported by the Greens, who are in opposition. The Left (*Die Linke*) is the only party criticizing the government and demanding a reassessment of the causes and aftermaths of the Ukrainian crisis. Leaders of Germany's main business associations and trade unions have supported the official position. Still, a critical stance on the government position exists at the level of both federal states and corporations, both large and medium-sized.

The number of bilateral projects financed from the German and Russian state budgets has not reduced. The attitude towards Russian business in Germany has not radically changed, except for the requirement to observe sanctions in the process of supplying goods and services to Russia. Russian companies managed to arrange new large-scale transactions with their German counterparts in 2014.

A normalization of Russian-German bilateral relations, provided there is progress in the peace settlement in Ukraine, is possible no earlier than in 2016 or 2017, before the next elections to the Bundestag, when the defence of the interests of German businesses will acquire greater significance for politicians.

Britain, in regard to the Ukrainian crisis, is acting in the spirit of the time-honoured trans-Atlantic consensus. If Washington changes its position, London will most probably ease off on Russia, too. Internal factors will unlikely affect its stance. One should not expect any major shifts in the policy of sanctions if Labour wins the general elections in May 2015. But the UK Independence Party (UKIP) that generally takes 3rd place in opinion polls opposes sanctions.¹⁵

France aligned its policy to the general Euro-Atlantic course at the beginning of this decade and has been promoting economic cooperation actively and gotten leading positions in investment in Russia. Paris views Russia's policy in the Ukrainian crisis as a broad offensive strategy, not as a reaction. Sanctions are unprofitable for France but it has fewer instruments or motives for conducting the De Gaulle/Mitterrand-style policy of alienation from the Atlantic consensus than ever before. However, as we said earlier a need to cooperate with Russia in the antiterrorist struggle may influence Paris's position.

Italy was viewed as a major opponent of sanctions in July, but already in September Rome has changed its position. Italy is Russia's second biggest trade partner in Europe after Germany and one of the main donors of technology while Russia is an important market and a major supplier of energy resources for Italy. Hence the aftershocks of the sanctions and counter-measures will wield impact on both sides. The section of the business community that has close links to the Russian market and some influential politicians spoke out vehemently against the sanctions. The General Confederation of Italian Industry (Confindustria) calls for meeting Russia halfway in case Moscow's policy on the Ukrainian issue changes.

The countries of Central and Eastern Europe can be roughly divided into three groups as regards their stance on the sanctions:

- Tentatively pro-Russian countries (**Hungary, the Czech Republic, Slovakia**) that oppose the extension of sanctions and the presence of NATO troops on their territories. Notably enough, some sections of the elites there believe a considerable share of blame for the Ukrainian crisis goes to the Kiev authorities. Their positions are unlikely to change in the coming year and a half or two years, since the political forces in power now have solid positions;

- The second group – **Bulgaria, Slovenia, Croatia** – have interest in the advantages provided by the EU membership. They neither speak out against the sanctions actively, nor support them ardently;
- The third group (**Romania, Poland, and the Baltic states**) is tentatively anti-Russian. These countries advocate the upkeep of the sanctions, even at the price of damage to their economies. They speak for deployment of NATO forces on their territories and apportion all blame for the Ukrainian conflict to Russia. However a certain mitigation of such positions can be seen in Romania and Poland.

This difference of geopolitical viewpoints in Central and Eastern Europe was reflected in the dynamics of the CEE countries' trade with Russia. Thus, imports from Bulgaria, Hungary, Slovenia, and the Czech Republic have reduced less than those from the EU as a whole, and those from Croatia have even increased.

Also in the 'Western' dimension, a freezing of relations with NATO took place against the backdrop of the conflict in Ukraine and the consolidating support for NATO's rehabilitation in the second half of 2014. Moves in this direction included the reinforcing of air patrol missions of the Baltic countries, the regular flights of jets with radar equipment over Poland and Romania, the introduction of supplementary NATO ships to the Baltic and Mediterranean Seas, the plans to extend the training programs and a ramification of early warning systems.

It appears, for the first time in over a quarter of a century, that political contradictions are transferring on such a scale, albeit gradually, to the military sphere, which is much more inertia-driven. *The inertia of military preparations on the sides of both Russia and the U.S./NATO may put up a potent obstacle to normalization of relations between Moscow and the West when and whether conditions for it spring up.* Against the backdrop of China's military rise, this militaristic inertia may prove to be even more stable and motivated. Russia, which has interest, along with the U.S., in restrictions on and control over the Chinese nuclear arsenals, may find itself in an ambivalent position. While making an active economic and political rapprochement with China, which encompasses cooperation in defence-related technologies, Russia simultaneously feels apprehensive of Beijing's future political and economic dominance and it will have to collaborate with Washington in the field of arms control.¹⁶

Thus, in spite of the current tensions, while making steps towards the East, Moscow continues looking at the West. From this point of view, the sanctions hit the heaviest blow – a flash-like and straightforward one – to the dialogue between Russia and its leading partners in the West. The patterns of negotiations, including the top-level talks, were disrupted, and the search for reciprocal steps or compromise solutions, even for the really pressing problems, like the transits of Russian natural gas via Ukraine in the winter of 2014/2015, was impeded.

Addresses and speeches that President Putin made in 2014 show Moscow's awareness of this 'West vs. East' dilemma. He sounded a few reconciliatory notes to-

wards the West even in the 'Crimean' speech in March. They could also be found in his address in July after the crash of Malaysia Airlines flight MH17. Putin's speech at a meeting with Russian diplomats in July 2014 (such meetings are held once every two years and set the objectives for the Russian diplomacy) made reference to the EU as strategic priority No. 1. The CIS, traditionally a main focal point, descended to the second place.

THE NON-WESTERN WORLD

Apart from the U.S., and Australia and Canada, which do not play any important role in Russian foreign trade, restrictive (but, in many ways, formal) sanctions have also been introduced by **Japan**. Tokyo's actions proceed from a general understanding of the Ukrainian crisis by the West and count on the support of the U.S. in the face of the strengthening of China. If the sanctions go, the Japanese government will presumably follow the general international trend. Cooperation with Japan will continue but it will be implemented, in the first place, within the framework of Japanese multinationals, some of which are compelled to abide by the sanctions now. (Along with it, last year saw a sizable increase of Russia's trade with South Korea (11%), Thailand (19%) and some other Asian countries as part of its 'pivot eastwards'.)

The Russian side has also made public its willingness to continue the cooperation across a broad spectrum of problems, although it subjected the Japanese government to harsh criticism in some cases for a deficit of independent foreign policy and dependence on the U.S. line. In 2015, the two sides will most likely try to outwait the period unfavourable for bilateral relations but they will not suspend their cooperation on the projects requiring considerable state support. The Russian President's visit to Japan scheduled for 2015 is expected to testify to the recognition of the importance of dialogue by the two countries in spite of the highly unrewarding external conditions.

*MEMO experts consider that **China will not be able to substitute for Europe and the US** as a source of technologies, while an overdependence on loans from Beijing is also highly undesirable.*

However, the signing of oil and gas agreements with Beijing may potentially pave the way to a practical turn towards it in the sphere of investments. The partial transition from financial transactions in U.S. dollars to the national currencies is a move in precisely this vein, as are the steps towards setting up a bilateral system of inter-bank settlements (an analogue of SWFT) and the systems of bank cards, creating the national ratings agencies, etc.

THE POST-SOVIET SPACE

A dubious situation has taken shape in the **post-Soviet space**, Russia's traditional priority vector. On the one hand, the integration here obviously developed in 2014. A treaty on the Eurasian Economic Union was signed in Astana in May 2014 and the

EEU started functioning as of January 1, 2015. But full-scale implementation of the treaty will take several years. Participants in the spring summit of the EEU said it would be complete in 2025 when a single market for oil products is set up. On the other hand, the Customs Union countries offered a rather restrained reaction both to Crimea's reunification with Russia and to Moscow's stance on the Ukrainian crisis.

Competition between the 'pro-European' or, in fact, pro-Western and the 'pro-Eurasian' trends is on the rise in the region. As part of the swelling pro-European trend, Georgia, Moldova and Ukraine have embarked on a political and economic association with the EU and seek rapprochement with (or potential accession to) NATO. Moldova is also eyeing a potential 'reunification' with Romania. In the Eurasian format, Russia and Belarus are strengthening their ties with the countries of Central Asia and Armenia in the format of the EEU and the CSTO, as well as with China in the format of the Shanghai Cooperation Organization.

The 'standoff through sanctions' between Russia and the West, and particularly the EU, that was sparked by the events in Ukraine has enabled **Belarus** to raise its profile in front of Russia and the EU politically (as a mediator at the talks on Ukraine) and economically (as a foodstuff offshore involved in re-exports and even contraband of European foodstuffs to Russia). **Kazakhstan**, which is alarmed by the irredentist moods of some sections of Russian society towards its 'Russian-speaking' eastern regions, is expanding its ties with the EU and also making money on half-legal transits of European commodities to the RF. **Kazakhstan** goes on with a multi-vector policy, which does not contradict Russian interests as a minimum in the environment of sanctions. The Kazakh government held a conclusive round of talks on a new agreement with the EU in September 2014 right at the time the EU was enacting a new instalment of sanctions against Moscow. The agreement will contain a chapter on trade and investment considering the prospect for Kazakhstan to join the WTO and the development of the Customs Union and the EEU.

In spite of its reorientation towards the EEU, Armenia is not folding up its relations with the EU. Azerbaijan and Georgia are energizing their ties with the Europeans, too, as their importance as a supplier and a handler of natural gas transits skyrocketed after Russia's renunciation of the South Stream gas pipeline project. This trend is less noticeable as regards the Central Asian countries although Uzbekistan has opened a regional office of NATO, while Kyrgyzstan and Tajikistan are getting food and financial aid from the EU.

On the background of Russian-EU relations, this pro-European trend enfeebles Russia's positions and the Eurasian integration process it stands at the head of. This enfeebling will most likely deteriorate in 2015. But a peaceful coexistence of the pro-European and Eurasian trends is possible all the same. The German leadership has come up with an idea that is consonant with Russia's earlier proposals, namely, to establish a dialogue between the EU and the EEU and to hold consultations between

Moscow and Brussels on a search for compatibility of focus countries embraced by the 'Eastern partnership' project both with the EU and with CIS formats.¹⁷

Still, the Eurasian trend keeps up its dominant positions in the post-Soviet space despite a steep worsening of internal and external factors. The consolidation and interconnectedness of cooperation processes in the EEU, CSTO, SCO, and CIS formats are growing – in many ways owing to the fact these formats embrace the same countries. Russia, Belarus, Kazakhstan, and Armenia are members of the EEU. Kyrgyzstan will join them soon. All these nations are members of the CSTO. Russia, Kazakhstan and Kyrgyzstan have membership of the SCO and Armenia has applied for an observer status there. This enables a coordination of the activities of these organizations in various formats.

It is important to stress that a full implementation of the overall integrative potential of this association will require considerable efforts that will be burdensome for Russia in the current situation. In 2014, trade between Russia and EEU member-states did not change in practical terms and stood at around \$ 52 billion, or 7.1% of this country's entire foreign trade.

The Ukrainian crisis has generated knotty problems for the Russian project of Eurasian integration. The degree and level of expenses for Russia caused by the loss of Ukraine as a partner in the spheres of economy and security are yet to be estimated veritably and this depends in many respects on the outcome of the crisis. Bilateral trade slimmed by 27% to \$ 26.0 billion from January to November 2014, or to 3.6% from 4.7% of the overall Russia trade turnover. Some political costs are clear already at this stage, though. The rather reserved position on the Ukrainian crisis and on the Russian policies taken by partners in the Customs Union and concerns over the maintenance of sovereignty, which filtered through in many public speeches made by President Nazarbayev, prove it will be rather difficult to assure the Belarusians and Kazakhstanis of the importance of deeper integration, including the transfer of more national authorities to the Eurasian Economic Commission.

BRICS

In parallel with a sharp deterioration of relations with the West, sanctions and counter-sanctions Russia stepped up activity in another non-Western format, BRICS, both multilateral and bilateral. BRICS nations received nice benefits from it. Russia's trade with them grew to almost \$ 96 billion in January–November 2014 and exceeded 13% of its entire foreign trade, largely thanks to a growth of trade with China and Brazil.

China. The major breakthrough occurred in Russian-Chinese relations in May 2014 when the talks that had lasted more than five years (an agreement on construction of gas pipelines and supplies of oil from Siberia was signed back in February 2009) were crowned with a deal worth \$ 400 billion, the biggest ever in the gas

industry. It envisions massive supplies of gas to the Chinese market and the cutting down of Russia's dependence on exports to the European energy market.

IMEMO experts believe China's position will proceed from the interests of its national businesses, which will likely seek to occupy the niches vacated by Western corporations, and from the desire to build up its financial sector and to develop transport and telecommunications.

Most probably, transactions with China will compensate for only a part of the damage inflicted by the sanctions. China may take on the role of a transit station for the transfer of Western technologies to Russia in three to five years' time. It may set up consortiums with Western corporations, and their technologies will then flow to purely Chinese businesses that will in their turn cooperate with Russian partners. Apart from that, the cooperation with China can be based on its equipment and technologies.

In the meantime, the credit opportunities are rather limited. China is interested in lending mostly for the purchases of Chinese equipment and employment of the Chinese workforce. The rules of floating securities on the Hong Kong Exchange, for instance, are much tougher than those in the European countries. It is crucial to understand that China's main attention is focused on the Asia/Pacific region, and on relations with neighbouring countries and the U.S. IMEMO experts argue that the U.S. continues improving the infrastructure of its military presence in Pacific Asia to prevent shifts in the balance of forces in Beijing's favour, as the latter is transforming into America's main competitor in that region. China on its part does not give up its claims to sovereignty over the litigious islands controlled by the Japanese government, and it is unbending in its desire to impose control on a range of territories and water areas also claimed by ASEAN countries. Tensions brought up by a territorial dispute between Japan and South Korea are still there, and the situation on the Korean Peninsula remains scarcely predictable because of an escalation of threats and uncertainty factors.

Still a positive change in the tone of the discussions of the border problems and other disputable issues occurred in 2014. A return of the regional integration projects to the agendas for practical discussions laid the basis for 'freezing' conflicts in 2015 and for conducting international discussions in the spirit of a calm and fairly productive dialogue.

China and the U.S. will look for opportunities to resolve their economic disputes in the spirit of cooperation although it is scarcely worthwhile to expect any breakthrough decisions in the sphere of regional security. The consolidating partnership between Japan and Vietnam and the expanding Indian economic and political presence in the area add more balance to the situation.

China will continue to build up its role of a new architect of the nascent system of integration institutions. Chinese proposals for setting up an Asia/Pacific free trade

area, which the country presented at an APEC summit in Beijing in November 2014, will be in the focus of discussions of the prospects for regional integration in 2015. Although the potential for breakthrough solutions in that area has not been accumulated yet, there was a transition of the politics of international economic regulation to a new level, which is the stage where legal and other rules of the game in international economic relations in the region are specified.

Also in Asia and the Pacific in 2015, China will be busy promulgating the operations of the Asia Infrastructure Investment Bank, which was created with its active assistance. The bank has a capital of up to \$100 billion and is headquartered in Beijing. Although it is still in the phase of creation, China's competition versus the U.S. and Japan is clearly moving to a new level. From now on, the degree of influence of different powers in the region's economic relationships will be determined not only by their share in the trade turnover of some or other countries and their quality role in economic ties, but also by the scale of their engagement in the international institutes that influence the formations of the potential of national economies for modernization, including infrastructure upgrades.

New agreements on free trade embracing the most prominent economies of the region will be signed. China is currently holding talks on it with South Korea. Simultaneously the two states will continue a search for how to keep up a dialogue with Japan on a possible agreement on a trilateral partnership. Last but not least, their cooperation in the solutions of acute ecological problems, in the elimination of the aftermaths of natural calamities, and in prevention of pandemics will continue.

India traditionally did not support sanctions (in the case of Iran or Iraq) and it did not support the sanctions against Russia either. The strategic Russian-Indian partnership continues developing at a fair pace and especially in defence and the nuclear power industry. Indian-Russian relations might get a powerful boost in the current situation, and the trade turnover (more than \$8 billion in 2014) might grow in the agricultural-food sector, power engineering (nuclear too), mechanical engineering, aircraft manufacturing, metallurgy, oil and gas, the chemical industry, and pharmaceuticals. However, the absence of a safe and profitable transport corridor, the close cooperation of the Indian companies with the American corporations that control the transfer of technologies to third countries and the absence of opportunities on the Indian side for active investing in Russia put up obstacles to the intensification of ties.

Russia's trade with **Brazil** has grown sizably by 14% up to nearly \$6 billion in 2014, mostly due to a jump of Brazilian meat exports. This made Russia the largest consumer of Brazilian pork and beef and placed Brazil firmly as a leading global exporter of meat products. A growth of Russian-Brazilian cooperation in defence technologies is also possible.

The South African Republic, like other African countries, its interesting for Russia today as a partner in politics rather than in trade, since the African states make up a

quarter of the votes at the UN. In addition, South Africa's history abounds in instances of successful rebuffing of sanctions.

The Southeast Asia Republic of Korea may become an important partner for Russia in the situation of the sanctions (currently its turnover is more than \$25 billion). Its corporations have a big potential in investment, research and technologies and hold a promise of establishing cooperation chains. Investments from South Korea may turn into an important factor of development in East Siberia and the Far East. South Korean business will be able to assess the prospects for investing in the region and to secure support from financial and lending institutions at home. South Korea's international mediatory capabilities create prerequisites for Russia's inclusion in the format of the regional cooperation in North-East Asia established by South Korea, China and Japan.

Some Western experts have noted the strengthening of Russia's ties with Brazil, India and China and the demonstration of loyalty on the part of these nations to Russia. BRICS foreign ministers issued a joint statement saying they objected to Australia's calls to cross Russia out of the G 20. China, Brazil, India, and South Africa as well as Kazakhstan abstained from voting on the UN General Assembly resolution on Crimea. Also, the experts indicate that the BRICS' current anti-Western political program has really enabled the group to form an identity and a rational grounding for its existence that goes beyond its initial definition as a group of independent developing economies.¹⁸ The initiative to create a New Development Bank and BRICS Reserve Fund that Russia put forward at the 6th summit of the group in Brazil aimed to strengthen the BRICS institutionally.

Simultaneously Russia – in a way following the US strategy of two (Transatlantic and Transpacific) rings – is trying to intermingle post-Soviet and BRICS formats, to create a 'ring' of cooperation with China and India through the Shanghai Cooperation Organization. The BRICS and the SCO are expected to hold a combined summit in Ufa in the western Urals in July 2015. India and Pakistan, currently having the status of SCO observers, may get full membership of the organization there (this was discussed at the SCO summit in Dushanbe). An increase in the number of SCO members meets Russia's interests immediately from the point of view of its relations both with the West and with China within the format of the SCO as such. However, the prospects for a practical political consolidation of the BRICS and the SCO remain unclear for the time being because of objective differences of interests of the member-states. For instance, India is trying to gain dividends from a growth of the Americans' attention to itself.

Yet in 2015 the harshness of the crisis in relations between Russia and the West will push aside the global and regional medium-term/long-term prospects and will bring out the current problems and concerns, including the military and political ones, which are in many ways the same for Russia and China at present. This provides an explanation for why China hosted the 'Peaceful Mission' 2014 exercise, the largest

one in the history of the SCO, while Russia and India held the Avia Indra-2014 exercise. These manoeuvres were described as antiterrorist ones but observers said they were held for prevention of 'colour revolutions'.

CONCLUSION

The crisis in Ukraine can be seen as a symbol, as well as the key denominator of world politics in 2014. There are no reasons to think it will be settled in 2015 to the degree that it might help begin a normalization of relations between Russia and Ukraine, on the one hand, and between Russia and the West, on the other. Equally small is the possibility of a stabilization of the situation in Ukraine as such in 2015, since the tragic events unfolding there since the end of 2013, with the civil conflict and a loss of thousands of human lives, have done huge damage to the economy, which was already in a dire state. The main problem admitted by Ukrainian experts,¹⁹ however, is that the political system, the very regime the protests against which sparked the harsh crisis, has survived unchanged.

In contrast, Russia did not offer official recognition to the elections in the Lugansk and Donetsk regions and continued talks with both Western leaders and Kiev, thus confirming its intention to uphold the peace process in line with the Minsk accords. A scenario under which the problem of the status of the Donetsk and Lugansk People's Republics could be settled in 2015 looks highly improbable but Russia recognizes the importance of talks with the West and sees some motions on its part, and it will continue looking for the solutions that would allow the West to mitigate or lift the sanctions in a face-saving manner unless the relations deteriorate again.

The current tendencies in Moscow's relations with the West will most likely stay in place in the medium term. The fanning of hostility has played into the hands of politicians trying to consolidate public opinion in the U.S. and in Europe likewise. In 2015, these factors will manifest themselves in bold relief in the countries heading for elections (like Poland) or entering election campaigns (like the U.S.).

Russia's policies will also play the part of a definite point of reference for the developers of common foreign policy approaches and strategies – for instance, in the U.S., where interventionism with use of force on the ground (which is very likely to happen in Syria) should win support so as to clear away the isolationist trends. In this connection, for example, we could quote J. Mathews, a former Carnegie Endowment President, who writes: 'The debate may be couched in terms of regime change vs. nation building, adherence to international law vs. exceptionalism, unilateralism vs. multilateralism, or interests vs. values. But behind the varying terminology is the same search for a guideline or framework for deciding when and where to commit money, blood, or political capital. Without that, polls show, the American people are no clearer than their leaders have been about when the United States should act and when not, and just as liable to radically switch positions as events unfold.'²⁰

Russia needs to define some strategic and implementable points of reference in a much bigger measure. In this context, some hopes for the prevalence of common sense, rational egoism or the survival instinct come from the umbrella-type negotiation formats, which made it possible to sign agreements on a truce in South-Eastern Ukraine and on the conditions that could set the framework for preserving Ukrainian statehood in case of compliance with them. As for rational thinking, one can see a glimmer of it in the decision to put off the practical enforcement of the economic chapters of the EU-Ukraine Association Agreement until the end of 2015.

The year 2015 left the world at a crossroads in relation to global and local threats and between present and past agendas. The Ukrainian crisis that unleashed today's confrontation between Russia and the West is a crisis stemming from the past – a long past measured by centuries from the inception of the Westphalian system to the disintegration of the Socialist system and the USSR. This past is marked by an outdated understanding of borders, nation states, historical and economic values, resources, etc. This crisis signals the climax of the renaissance of geopolitics in the beginning of the 21st century and the struggle for resources in the style of the turn of the 19th century and the start of the 20th century, the backwater renaissance that contravenes the reality of globalization and/or regionalization, the Tesla electric car, and biotechnologies. The Ukrainian crisis distorts the priorities of the global security and economic agenda, averts attention from the real challenges and threats, such as religious extremism and terrorism, and prevents cooperation on the acute global matters.

For the U.S., the global agenda will consist of Iran, Syria, relations with China and Russia, and the elaboration of a new long-term strategy consistent with a forthcoming period of relatively low crude oil prices. Russia's global agenda is similar. The need for interaction on the existential problems provides hope for a normalization of relations between Moscow and the West. A new medium-term and long-term existential task that Russia is to assimilate in 2015 presumes the elaboration of a long-term national foreign policy and foreign economic strategy consistent with the period of relatively low prices of crude oil.

ENDNOTES

- ¹ IMEMO is the Russian Academic of Sciences Institute of World Economy and International Relations. See the full text of the forecast in Russian at http://www.imemo.ru/files/File/ru/publ/2014/2014_031.pdf. This abridged version for *Perspectives* magazine was prepared by I. Kobrinskaya and B. Frumkin.
- ² Samuel Charap–Jeremy Shapiro (2014) 'How to Avoid a New Cold War'. Online: <http://www.brookings.edu/research/articles/2014/09/how-to-avoid-new-cold-war-charap-shapiro>.
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- ⁴ Online: <http://carnegie.ru/2014/10/09/engaging-china-in-nuclear-arms-control/>.
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- ⁷ CSIS – Global Forecast 2015.
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- ⁹ Khanna, Parag (2012). Online: <http://globalaffairs.ru/number/Novoe-Srednevekovye-15530>.
- ¹⁰ Tocci, Nathalia (2014) 'The Neighbourhood Policy is Dead. What's Next for European Foreign Policy Along Arc of Instability?' IAI Working Papers 14.
- ¹¹ Online: <http://quote.rbc.ru/topnews/2014/11/24/34265256.html>.
- ¹² Online: <http://www.cbr.ru/>.
- ¹³ Online: <http://www.gks.ru/>.
- ¹⁴ All calculations are based on data available from IMF World Economic Outlook; IMF International Financial Statistics; The World Bank Group, and the World Development Indicators Database, unless stated otherwise. Forecasts by the authors.
- ¹⁵ Online: <http://www.telegraph.co.uk/news/worldnews/middleeast/syria/11098811/Nigel-Farage-Stop-opposing-Vladimir-Putin-in-Ukraine-and-join-forces-to-defeat-Islamic-terrorists.html>.
- ¹⁶ Online: <http://carnegie.ru/2014/10/09/engaging-china-in-nuclear-arms-control/>.
- ¹⁷ Online: http://www.mid.ru/brp_4.nsf/0/1884D882CDBA565BC3257DB7002CD608.
- ¹⁸ Online: <http://www.bne.eu/content/story/perspective-sanctions-beef-russias-brics-ties>.
- ¹⁹ Online: http://vybor.ua/news/maydan_ne_izmenil_ukrainskuyu_politicheskuyu_sistemu_reyter.html.
- ²⁰ Carnegie Institute (2014) The Year in Crisis. *Our Look Back at 2014 and Ahead to 2015*. Online: <http://carnegieendowment.org/2014/12/10/2015-world-confused/hw8x>.