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OF WORLD ECONOMY AND INTERNATIONAL RELATIONS
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RUSSIA AND THE WORLD: 2025

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PART I

GLOBAL TRENDS

ECONOMIC TRENDS

Economic growth dynamics. In the past 2024, the global economy demonstrated resilience to endogenous and exogenous shocks of various nature and strength. The distribution of global economic activity in geographical terms continues to shift towards the Asia-Pacific region. The BRICS countries – India and China – remain the main drivers of global economic growth (Table 1).

Table 1. GDP growth rates in the world's largest economies in 2023-2025

	2023	2024, estimate	2025, forecast
BRICS countries			
Brazil	2,9	3	2,1
India	8	7	6,5
China	5,2	4,8	4,5
Russia	3,6	3,6 – 3,9	1,8–2,5
South Africa	0,7	1	1,2
Developed countries			
USA	2,9	2,8	2,0
Germany	–0,3	–0,1	1,3
Japan	1,9	0,9	1,0
UK	0,3	1	1,5
France	0,9	0,7	1,4
Italy	0,9	0,7	0,7
Spain	2,7	2,8	2,1
Netherlands	0,1	0,6	1,3
Canada	1,2	1,2	2,3
Exporters of industrial products			
Mexico	3,2	2,4	1,4
South Korea	1,4	2,3	2,3
Taiwan	1,4	3,1	2,7
Malaysia	3,5	5	4,6
Philippines	5,5	5,7	6
Thailand	1,9	2,8	3
Vietnam	5	6,3	6,1
Middle East			
Turkey	5	3	3
Saudi Arabia	–0,8	2,6	6,0

Source: Ministry of Economic Development of the Russian Federation, International Monetary Fund, CER IMEMO RAS.

Among developed countries, the dynamically growing U.S. economy is increasingly outpacing European economies, which, excluding Spain, are showing sluggish economic growth. Undermined, among other factors, by the too radical pace of the energy transition and the severing

of mutually beneficial economic ties with Russia, Germany's economy experienced recession in 2023 and 2024. The rate of recovery growth of the German economy in 2025 will be low, and given the ongoing deindustrialization, the return to the trajectory of positive economic dynamics is not guaranteed and will be extremely painful. High economic dynamism is demonstrated by exporters of industrial products, primarily in ASEAN, who benefit from the economic confrontation between the U.S. and China.

Despite the slowdown in growth, China is strengthening its position in the global economy.

Faced with a structural slowdown in economic growth, China has increased its reliance on export demand, which remains the main driver of the Chinese economy. The world's second largest economy by current exchange rate and the first by purchasing power parity of the national currency maintains a high surplus in foreign trade in goods (Figure 1). Since the exogenous COVID-19 shock and the outbreak of the military conflict in Ukraine, the long-term trend of China's global economic expansion has continued to accelerate. China has become the world's leading trading power, outpacing Europe and the US.

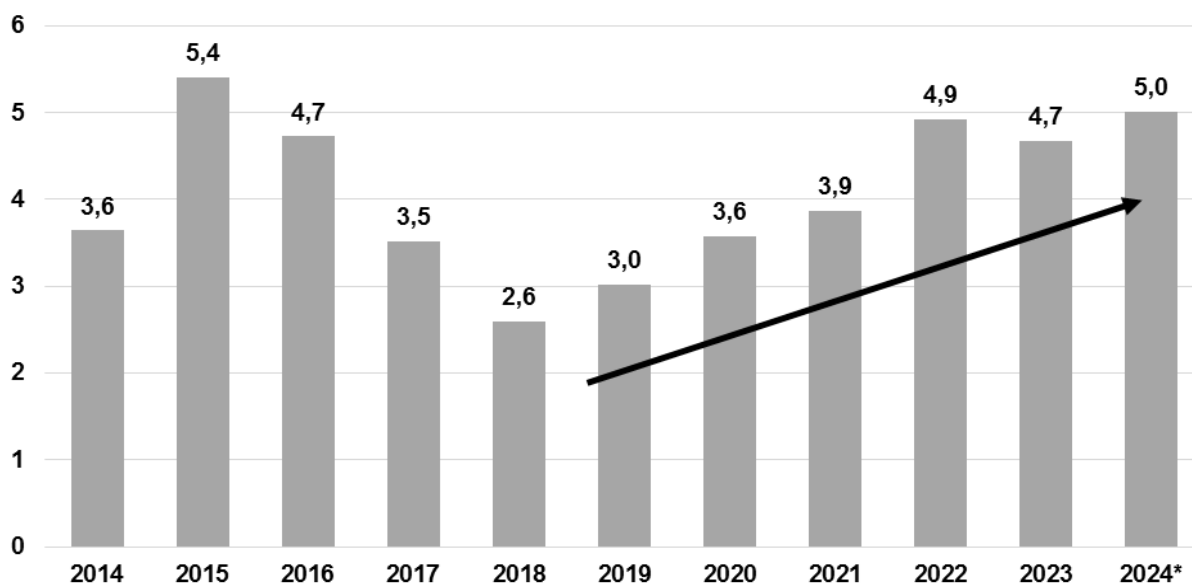


Figure 1. China: ratio of the foreign trade balance in goods to GDP, %.

Source: CER IMEMO RAS according to the International Monetary Fund, International Trade Centre.

In terms of technological sophistication of the economy, China has joined the ranks of world leaders, and Chinese exporters are ready to compete globally across the entire line of finished industrial products. Since 2023, China's main export market is ASEAN countries. The importance of exports to Russia, Central Asian countries, the Gulf oil exporters, India, Mexico and Brazil has increased significantly. China's growing need for raw material imports and access to export markets is boosting the global expansion of Chinese capital. In 2020 – the first half of 2024, China sent more than \$220 billion in investments abroad. The largest recipients of investment from China were Indonesia, Brazil, the US, the UK, Saudi Arabia, Singapore, France, the Democratic Republic of Congo, Guyana, Hungary, Vietnam and the Netherlands. China's cumulative loans and aid to third countries reach nearly \$1.5 trillion, making it one of the world's largest financial donors.

Reduction of target interest rates by central banks

Global economic growth is supported by the policy of reducing target interest rates by central banks in the world's leading economies (Figure 2). Having achieved significant success in suppressing inflation, central banks are cautiously shifting to a softer monetary policy. Reducing the price of borrowing in the financial market is a powerful factor in stimulating private sector activity.

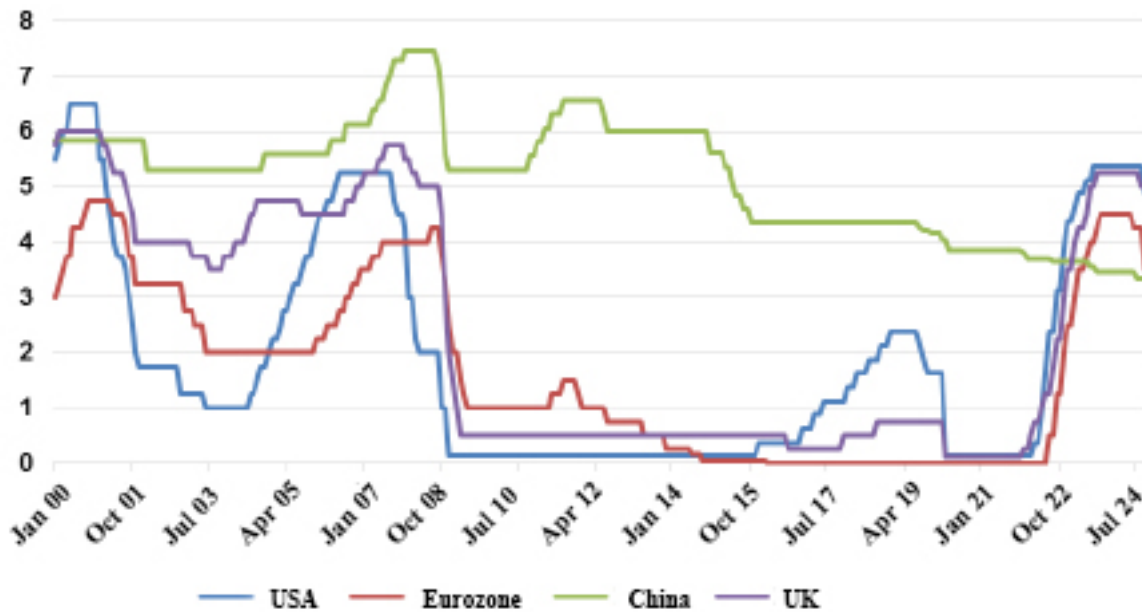


Figure 2. Dynamics of central banks' target interest rates in January 2000 – September 2024, %.

Source: Bank for International Settlements.

Public debt. The major factor in stimulating economic activity in most large and medium-sized economies remains the build-up of public debt. Only in Indonesia, Turkey and Russia, for various reasons, the ratio of debt to gross domestic product is less than 50% (Figure 3). In Japan, public debt exceeds GDP by 2.5 times. In Singapore, Greece, Italy, the United States, France, Canada, Belgium, Spain and the United Kingdom the ratio of public debt to GDP exceeds 100%.

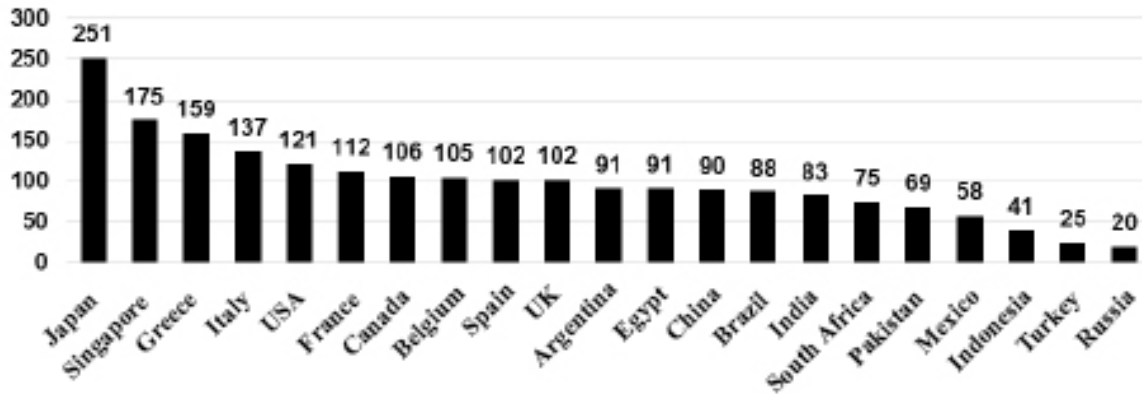


Figure 3. Public debt to GDP ratio in 2024, %.

Source: International Monetary Fund.

China is rapidly catching up with the US in terms of public debt (Figure 4). Development on credit creates risks and increases the fragility of the entire economic growth construct.

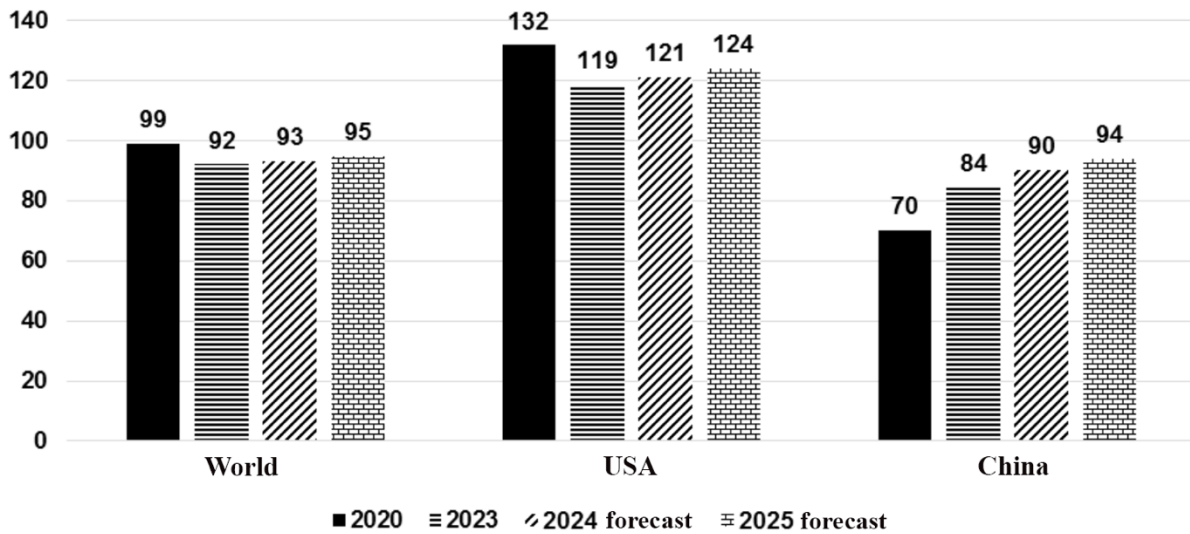


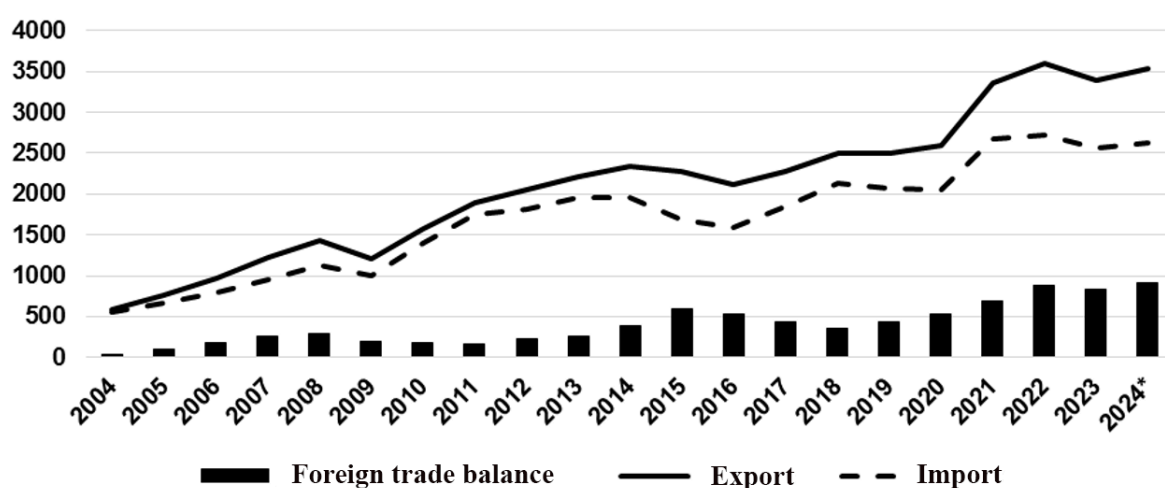
Figure 4. World, US and China: public debt-to-GDP ratios in 2020-2025, %.

Source: International Monetary Fund.

Militarization of economic growth. The militarization of economic growth has become an important structural shift in the global economy. The ratio of military spending to GDP is estimated to have increased in all European countries except Bulgaria in 2019-2024. This indicator increased by 1 p. p. or more in Poland, Estonia, Latvia, Sweden, Denmark and Finland. At the same time, in the United States this ratio decreased by 0.1 p. p. due to the outpacing GDP growth, although only in 2024 military expenditures in absolute terms increased by 7.1% against the previous year. During the new presidency of Donald Trump, who believes that the European members of NATO should finance their own security, the military expenditures of European countries will rise.

World trade in goods

Despite rising protectionist barriers, attempts to transform global value chains, and strengthening sanctions regimes, global trade in goods is highly resilient to both these and other shocks. China is experiencing an export boom starting from 2021 (Figure 5). Devaluing simplistic analytical paradigms of de-globalization and decoupling (decoupling of the U.S. and Chinese economies), China exported nearly \$100 billion (or 23%) more to the U.S. in 2024 than it did in the pre-COVID year of 2019. Although the U.S. share in Chinese exports declined, this was also due to a rapid growth in Chinese exports to the Russian, Vietnamese, Malaysian, Mexican, Thai, and Indian markets (Table 2). In addition, ASEAN countries and Mexico are used by Chinese industrial companies to circumvent U.S. protectionist barriers. The significance of China's exports to Taiwan has decreased slightly. Chinese industrial exports to Russia and India have grown notably. At the same time, the importance of the Japanese and South Korean markets for Chinese exports has significantly decreased. Chinese companies have outgrown the division of labor in manufacturing that emerged in the Asia-Pacific region in the 1990s-2000s and are relatively less involved in value chains with Japanese and South Korean partners.



* Estimates.

Figure 5. China: dynamics of merchandise exports and imports in 2004-2024, billion USD.

Source: International Trade Centre, CER IMEMO RAS.

Contrary to the decoupling paradigm, the United States has taken a larger share of China's merchandise imports in 2024 compared to 2019 (Table 3). The beneficiaries of China's import growth have been the commodity economies of Brazil and Russia, as well as the newly industrializing countries of Vietnam and Malaysia, which are increasingly being drawn into a division of labor with China in manufacturing with a view to subsequent exports to the United States and Europe.

Table 1. China: largest export merchandise markets, % of total merchandise exports.

	2019	2024*	2024 to 2019, p. p.
USA	16,8	14,6	-2,2
Hong Kong	11,1	8,5	-2,6
Vietnam	3,9	4,6	0,7
Japan	5,7	4,2	-1,5
South Korea	4,4	4,1	-0,3
India	3,0	3,4	0,4
Russia	2,0	3,2	1,2
Germany	3,2	3,0	-0,2
Malaysia	2,1	2,8	0,7
Mexico	1,9	2,6	0,7
Netherlands	3,0	2,5	-0,4
Thailand	1,8	2,4	0,5
Singapore	2,2	2,2	0,0
United Kingdom	2,5	2,2	-0,3
Taiwan	2,2	2,1	-0,1
15 countries	65,8	62,6	-3,2

* Estimate.

Source: CER IMEMO RAS according to the International Trade Centre.

An increasing share of China's foreign trade is conducted in RMB. With significant trade surpluses with a large number of countries, China is encouraging the conversion of bilateral trade to RMB settlement and clearing schemes. Western sanctions against Russia, which has no other alternatives, also contribute to this. Nevertheless, the RMB still represents less than 1/3 of China's foreign trade turnover, which is the main beneficiary of globalization and continues to support foreign trade transactions mainly in dollars and euros. The use of U.S. and European currencies is a critical factor in supporting the global expansion of Chinese capital.

Table 2. Largest exporters of goods to China, % of China's total merchandise imports.

	2019	2024*	2024 to 2019, p. p.
Taiwan	8,3	8,3	0
South Korea	8,4	6,9	-1,5
USA	6	6,3	0,3
Japan	8,3	5,9	-2,4
Australia	5,9	5,5	-0,4
Russia	3	5,0	2,0
Brazil	3,9	4,8	0,9
Malaysia	3,5	4,3	0,8
Vietnam	3,1	4,1	1,0
Germany	5,1	3,6	-1,5
Indonesia	1,7	2,7	1,0
Switzerland	1,3	2,3	1,0
Saudi Arabia	2,6	2,2	-0,4
Thailand	2,2	1,8	-0,4
Canada	1,4	1,7	0,3
15 countries	64,8	65,4	0,6

* Estimate.

Source: IMEMO RAS according to the International Trade Centre.

China remains the third largest market for US merchandise exports after geographically close Canada and Mexico, which together with the United States are members of the North American Free Trade Agreement (Table 4). China's share of US merchandise exports in 2024 was higher than in 2019, further emphasizing some effectiveness for the United States of the trade agreement concluded between the two countries during Donald Trump's first presidency. Exports from the US to the Netherlands, which is a global oil and gas hub for distribution on the European continent, including growing US oil exports, grew at an outstripping pace. The shares of the UK and France in US exports declined, while Germany's share remained unchanged. It is highly likely that in 2025 the US will intensify pressure on its European partners, encouraging them to increase imports of American goods.

Table 3. USA: largest export merchandise markets, % of total merchandise exports.

	2019	2024*	2024 to 2019, p. p.
Canada	17,8	16,8	-1,1
Mexico	15,6	16,2	0,6
China	6,5	7,1	0,6
Netherlands	3,1	4,4	1,3
Japan	4,5	3,9	-0,7
United Kingdom	4,2	3,7	-0,5
Germany	3,7	3,6	0,0
South Korea	3,4	3,4	-0,1
Brazil	2,6	2,3	-0,3
Singapore	1,9	2,3	0,4
France	2,3	2,2	-0,2
Taiwan	1,9	2,0	0,1
India	2,1	2,0	0,0
Australia	1,6	1,7	0,1
Italy	1,4	1,7	0,2
15 countries	72,7	73,2	

* Estimate.

Source: IMEMO RAS according to the International Trade Centre.

Looking for profits, American companies are actively incorporating these countries into their global value chains. ASEAN countries are becoming an important manufacturing platform for Chinese companies as well. In parallel, the US and China are helping ASEAN countries to establish themselves as a major manufacturing center of global significance.

Table 4. Largest exporters of goods to the US, % of total US merchandise imports.

	2019	2024*	2024 to 2019, p. p.
Mexico	14,0	15,3	1,3
China	18,4	13,8	-4,6
Canada	12,7	12,8	0,1
Germany	5,1	5,0	-0,1
Japan	5,7	4,7	-1,1
Vietnam	2,7	4,2	1,5
South Korea	3,1	4,2	1,1
Taiwan	2,2	3,6	1,4
Ireland	2,4	2,9	0,5
India	2,3	2,8	0,4
Italy	2,3	2,4	0,1
United Kingdom	2,5	2,1	-0,4
Thailand	1,4	1,9	0,6
France	2,3	1,8	-0,5
Malaysia	1,62	1,5	-0,1
15 countries	78,7	79,0	0

* Estimate.

Source: IMEMO RAS according to the International Trade Centre.

Global oil market – sluggish demand growth. The global oil market continues to be dominated by the US and global US and European oil and gas companies. In 2024, the OPEC+ agreement participants were forced to hold oil production against the background of its increase in the USA and other countries of the world. The state budgets of the key OPEC countries and their OPEC+ partners are critically dependent on oil export revenues, so in the context of sluggish growth in oil demand, mainly due to the structural slowdown of the Chinese economy and its transition to a phase of intensive development, they are forced to restrain production in order to prevent the collapse of oil quotations.

Natural gas prices in Europe will remain high and much volatile until spring 2025. Low winter temperatures, stochastic uncertainty regarding solar and wind generation and political uncertainty regarding the transit of Russian gas through Ukraine to Europe, the contract for which expires on December 31, 2024, as well as the imposition of US sanctions on Gazprombank, through which contracts securing Russian gas exports to Turkey pass, create an ideal environment for European spot market players to boost gas prices. European gas prices will inevitably push up spot LNG prices in the Asia-Pacific region as well. Comparatively low gas prices in the US will remain the most important factor in ensuring the global competitiveness of US producers. (For details see pp. 60-64)

Results of the Conference of the Parties to the UN Framework Convention on Climate Change (COP29). At the COP29 in Baku in November 2024, Azerbaijan significantly advanced the global climate agenda. Although the Global South's request to increase annual climate finance to \$1.3 trillion by 2030, of which \$600 billion should come in grants, was not met, a compromise was reached that participants will work to ensure that developing countries receive at least \$1.3 trillion

annually for climate purposes by 2035. Of this hypothetical sum, \$300 billion would come in the form of bilateral and multilateral grants and concessional loans, mostly from developed country governments. The rest is expected to come from the private sector. The international climate dialogue process itself is supported, and in 2025, the COP30 could return to discussing the scope of climate finance.

The main outcomes of the COP29 were: first, an increased focus on adaptation issues; second, a breakthrough in support for international trade in carbon units; and third, a global water initiative.

Socio-economic adaptation is recognized as an equally important goal as mitigation of greenhouse gas emissions. By 2030, all countries should prepare national adaptation plans. The global financial system must adjust to adaptation needs. All these bring the substantive agenda of global climate policy in the framework of the COP closer to the ideology of the UN's 2030 Sustainable Development Goals, which emphasize economic growth and improving people's living standards.

The most important outcome of the COP29 was the agreement to establish carbon markets under Article 6.2 and 6.4 of the Paris Climate Agreement. Article 6.2 allows countries to share mitigation results bilaterally and use them within their nationally determined emission contributions. Article 6.4 forms a mechanism for validation, verification and emission of high-quality carbon credits. COP29 agreed how countries can create, register and trade carbon units while avoiding double counting. Crucially, the unblocking of Article 6 opens up the possibility of participation in carbon unit trading not only to countries, but also to companies. All of this opens the door for all countries to lay down the potential of carbon markets in a new round of voluntary nationally determined climate contributions that are due by February 2025. Strategically, the removal of barriers to the development of carbon markets, markets in the strict economic sense of the word, can be counted on to form an effective global alternative to the ideological and bureaucratic markets for trading greenhouse gas emission permits.

The declaration “Water for Climate Action” was adopted at COP29. Water links climate and biodiversity. Clean water is the basis for human health and the development of agriculture and food systems. The Declaration was supported by more than 50 countries and leading international climate organizations. In particular, the declaration calls on all countries to integrate water policies into nationally determined contributions on emissions, national adaptation plans and national biodiversity strategies. Adoption of the declaration opens up opportunities to advance the difficult global dialog on water issues: in particular, whether freshwater is a global public good or a market resource that has its price.

Global food problem

Despite the continued decline in food prices from their peak levels in 2022, they remain at elevated levels (Figure 6). Systemic failures in economic growth and elevated food prices are leading to rising numbers of hungry and undernourished people. Hunger levels are rated as severe in 36 countries, and alarming in 6 countries (Burundi, Chad, Somalia, Sudan, Yemen and Madagascar)¹. The number of the hungry in the world has increased by more than 150 million people since 2019. It can be stated that the goal of eradicating hunger by 2030 will not be achieved.

¹ World hunger facts: What you need to know in 2024 (and 2025) // Concern Worldwide. 2024. 10.10. URL: <https://www.concern.net/news/world-hunger-facts-figures> (Accessed: 15/12/24).

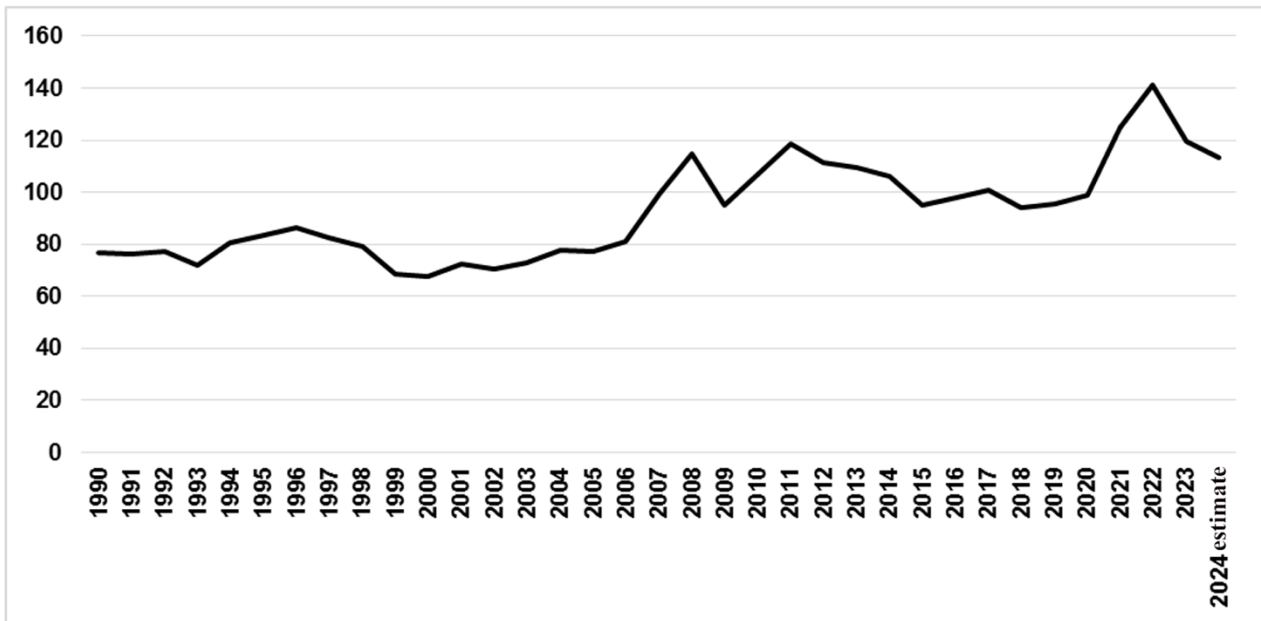


Figure 6. Dynamics of the real food price index in 1990-2024, 2014–2016 = 100.

Source: Food and Agriculture Organization of the United Nations (FAO).

Main risks of 2025.

The main risk to global economic growth is uncertainty about the economic policy to be pursued by the administration of US President Donald Trump. It remains unclear to what extent and what pre-election promises are transferred into a concrete economic course. Higher import tariffs, lower business taxes, higher federal budget deficit, tougher immigration policy and even partial realization of the announced plans to expel millions of illegal migrants will form a new environment for the development of the American economy. It is also obvious that more active US protectionism will trigger a counter-reaction from both China and the EU, which will further increase turbulence in the global economy.

The main challenge for the EU and other European countries is to find a balance between increasing military spending, financing social commitments and continuing the transition to a green economy. Even in the most optimistic scenario, the growth dynamics of European economies will remain weak.

China will continue attempts to stimulate economic growth, aiming to reach the target GDP growth rate of 5%. The deficit of domestic demand will push China towards even more active foreign trade expansion. At the same time, a possible tightening of the US tariff and sanctions policy towards China and countermeasures of the latter will exert a rather strong downward pressure on the growth rates not only of the Chinese and American economies, but also of the world as a whole. Exporters of agricultural and mineral raw materials and metals will be particularly hard hit.

POLITICAL TRENDS

In 2025, world politics and security will continue to be affected by the factors noted as dominant in Forecast 2024. Namely:

- changes in American politics, due to the new Republican administration of Donald Trump coming to power in the US;
- conflicts and related politico-military and socio-economic instability and uncertainty at the global, regional and national levels; securitization and militarization of world politics;
- the Global South.

However, the Factor-2025 will be the increased *uncertainty* of the near future in almost all areas of world politics by the beginning of the year. Moreover, the uncertainty is binary in nature. On the one hand, uncertainty “as a state of limited knowledge, in which it is impossible to accurately describe the existing state, future result or more than one possible result”² in the moment and in the near future is caused by extremely poor predictability of the current set of problems and conflicts. On the other hand, the *accompanying uncertainty* – the unstable political and psychological state of societies and elites generated by crises, which hinders adequate analysis and perception of reality, reaction to events and making relevant decisions – is of no less importance. Uncertainty is aggravated by widespread anxiety caused by expectations of negative impact of technological and exogenous factors.

Uncertainty

The reasons for the heightened conflictogenic background in 2024 were not only hot conflicts, but also an acute struggle in which elections were held in dozens of countries and organizations (European Parliament), deepened internal political imbalances and splits in the leading countries and international institutions (from the UN to the ICC). All this against the backdrop of anxious expectations of the US elections that engulfed the whole world turned uncertainty into an independent factor of influence on world politics.

In 2025, France, where a change of government is imminent, Germany, where early elections will be held, Romania, Georgia, and the Republic of Korea will enter a state of internal political crisis. IMEMO's characterization of the political crisis in South Korea seems to be applicable to some extent to all the countries mentioned. “Its main elements are sharp contradictions between the ruling circles and opposition forces, between the executive and legislative branches of power. The society is polarized, there is considerable discontent in its depths, and there is no consensus in political circles on how to solve the complex socio-economic problems the country is facing”³.

The black swan arrived at the very end of 2024. Within a matter of days, the ruling regime in Syria suddenly collapsed. A highly unpredictable and uncertain situation has emerged, if we take into

² Douglas W. Hubbard. How to measure anything. Finding the Value of "Intangibles" in Business. – Moscow: Olymp-Business, 2014.

³ Oleg V. Davydov. Political Crisis in South Korea: What's Behind It? // IMEMO RAS. 2024. 05.12. URL: <https://www.imemo.ru/publications/policy-briefs/text/political-crisis-in-south-korea-whats-behind-it> (Accessed: 17/12/24).

account the multicomponent, including ethno-religious nature of the fighting groups and the no less complex puzzle of interests of the international players involved in the crisis: Iran, Turkey, Russia, the United States, and Israel.

The Syrian conflict, although its scale and its very location in the Middle East, one of the most explosive regions of the world, are significantly greater than what was happening in the South Caucasus in 2023, resembles in its algorithm the Azerbaijani-Armenian one-day war in Karabakh. The weakening of one of the actors (in 2024, Hezbollah in its war with Israel), the diversion of attention of external “patrons” (Iran and in both cases Russia) to other conflicts created conditions for the rapid development of hostilities. In 2025, the chain of uncertainties associated with the Ukrainian conflict (both, which cannot be ruled out, in the scenario of its escalation and during peace negotiations) is also fraught with excesses – right in the center of Europe, which is openly spoken about in Moscow and which Europeans fear and seek to avoid.

Taken together, the above and related events have created an international environment of extremely high “radical”⁴ degree of uncertainty, tense expectation of excesses, and negative developments.

The effect of self-fulfilling prophecy may work – such a state itself has a destructive impact on world politics and international relations, hinders the search for and adoption of effective, especially long-term solutions.

However, uncertainty is only the starting point of the conflictogenic dynamics. The transformation of the former world order has turned into its collapse, which does not mean the end of the world, but only a categorical lack of universally recognized order and common norms of life. Previously inadmissible forceful ways of solving international problems are rapidly legitimized de facto – world “Disobedience Day” is on the rise, in which many will try to take their chance. Actually, for some time, the norm of *fait accompli* is being established by default.

This will obviously change the foreign policy planning of the world's major countries, which see what their neighbors are potentially capable of, begin to perceive this quasi-chaos as a new normal and, consequently, will build their proactive strategies with a much greater weight of the military-force factor. This leads, among other things, to chain unfreezing of conflicts that had previously been successfully suppressed by the inertia of a solid world order that reflected a more or less consensual opinion of the major powers.

At the moment, the adherents of the forceful approach have a window of opportunity to solve their problems by unilateral force, as exemplified by the cases of Syria, Nagorno-Karabakh, and, to a certain extent, the Israeli campaign against Hezbollah in Lebanon. If a really big war can be avoided, then in the future, when the window closes, a line will be drawn under the *fait accompli* and such behavior will again become, if not punishable, then actively discouraged by the international community.

Technological and exogenous factors

⁴ Zanny Minton Beddoes. The three forces that will shape 2025 // The Economist. 2024. 18.11. URL: <https://www.economist.com/the-world-ahead/2024/11/18/the-three-forces-that-will-shape-2025> (Accessed: 22/12/24).

Anxiety, feelings of insecurity and uncertainty are supplemented by fears of the negative impact of technological and exogenous factors. On the one hand, these are conventionally “technological” phenomena, poorly understood by the average citizen, and especially by the older generations, but at the same time aggressive phenomena, in particular, banking and finance (bitcoin dynamics), military (hybrid attacks, massive use of drones, transformation of primitive pagers into real weapons, other non-standard techniques and solutions that change the nature of wars, information wars); daily life – the widespread use of AI and even the “onslaught of electric cars”, primarily Chinese-made (with obvious negative and yet insufficiently calculated consequences for the EU-China, US-China, US-EU trade and economic landscape), etc.

On the other hand, by 2025, the fears from five years ago, triggered by the COVID-19 pandemic, have dramatically revived. These include media-fueled anticipation of new disease outbreaks, and the realization of mistakes made that caused significant damage to the health of millions of people and to global and national economies. It is also the changes in psyche, psychology, behavioral patterns, and labor relations that still require the adaptation of economies. In the developed economies, against the backdrop of relatively low growth and social problems with which they enter 2025 after a revival in 2021-2023 on a low post-COVID 2020 base, discussions on these topics have resumed. The summary is disappointing: the world is neither prepared for nor protected against new epidemics. Developed countries also demonstrate insecurity in the face of the threat of natural disasters (floods, hurricanes), which are becoming more frequent, due to, among other things, climate change.

No solutions that could significantly change the global political atmosphere and improve the “political-psychological environment” are seen on the eve of 2025.

US factor

The politics of the United States in 2025 with the advent of a new administration – not a presidential administration, but exactly the administration, as the executive and legislative branches of government, with public support, have fallen into Republican hands – can serve as a kind of forecasting framework for 2025.

However, the content of the frame does not provide more certainty. Almost in all key areas of the world agenda – from Europe to China, from the Arctic to Southern Africa – forks are possible in American policy. These are: escalation vs conflict resolution (Ukraine), strengthening vs weakening of sanctions (Russia, Iran), pressure on allies vs their support, multilateral vs bilateral formats (in the Indo-Pacific region and Africa).

Conventionally, the choice in each case will depend on the balance of Donald Trump's two contradictory, if not mutually exclusive postulates: to “make America great again”, to win a tough trade, economic and geopolitical battle with China, but at the same time, as far as possible in the modern world, to return to traditional American isolationism, to avoid participation in “foreign” wars and conflicts. This dilemma will underlie the choice at every fork in the road.

It cannot be ruled out that in all these and other cases, Donald Trump will be guided by his usual transactional, in other words, business and deal approach. Returning to the South Korean case, the White House is primarily concerned that destabilization could lead to “disruption of important

export-import supplies and damage to global value chains, of which South Korea is an important link”⁵. The solution of problems will depend on the effectiveness of this approach and on the contractual capacity of the partners. The latter, for various reasons – from existential to ideological and, again, business ones – may be either willing to make deals and compromises or resist them.

This primarily concerns the sides of the conflicts, including the Ukrainian and Middle East conflicts, with which the world is entering 2025, but is no less relevant to the choice of position by Washington's main rival in the foreseeable future – China.

Personality factor

The personality and character of the 47th President of the United States deserve special attention in terms of forecasting the development of events in 2025 for a number of reasons. The first is that in the absence of strong decisive leaders among the Democrats, who are nostalgic for Margaret Thatcher and Ronald Reagan, the coming to power of the extravagant, assertive Donald Trump really switches the lever of activity in the international arena to direct transmission. The second reason is the “business nature” of the new US President. The transactional approach, agreements in the style of a deal are not only understandable, but apparently the only acceptable algorithm for him, especially given his not-young age and second term as president.

The third reason follows from the first two. It is Trump's willingness to make quick decisions – he has planned the main deals for 2025. In addition to other motives, an important rational justification for such a race is the fact that in 2026, America will already hold midterm elections. And the balance of power may change, especially if the Republicans, again due to Trump's character, make serious mistakes in the first year.

⁵ *Oleg V. Davydov*. Political Crisis in South Korea: What's Behind It? // IMEMO RAS. 2024. 05.12. URL: <https://www.imemo.ru/publications/policy-briefs/text/political-crisis-in-south-korea-whats-behind-it> (Accessed: 15/12/24).

Transactionalism 2025.

Transactionalism as a format of international relations will continue to influence the formation of a new balance, the nature of multilateralism, and the struggle for leadership beyond 2025. At the turn of the first and second quarters of the XXI century, largely due to the coming to power of Donald Trump in the US, the nature of international relations in the medium term may be determined.

“Abstract concepts like common values, interests of mankind, world public opinion are not among the frequently used ones, much less do they reflect priorities. Demonstrative transactionalism has become a natural reaction to the many ambiguities, understatements, hypocrisy, and political correctness of the postmodern era. Transactional rhetoric, sometimes bordering on cynicism, arouses much more trust and support among the population today than high-minded declarations in the retro-style of postmodernism”⁶.

Therefore, the deal, pragmatic and often cynical, is becoming one of the key political trends in 2025 and in the foreseeable future. A positive feature of this type of international relations is its eventual greater effectiveness and, at the same time, certainty. That is, the achievement of results, even negative ones, on this or that track will help to reduce the degree of uncertainty and anxiety in world politics.

If we accept the condition that in the near future, in a situation of radical uncertainty, the US policy will largely determine the frame of world politics, then the peak of its current phase will be in 2025. That is, the further course of the world order process depends to a large extent on the results of the first year of Donald Trump's second presidency. Transactionalism, in a sense a change in the world fashion, the transition of negotiations to the style of business instead of the high black tie, can itself also have a substantive impact on world processes.

World 2025

Under conditions of uncertainty, the processes of change in global politics that have emerged in recent years, which were noted in the previous IMEMO Annual Forecasts, have not only failed to slow down, but have become even more noticeable. The world is no longer unipolar. The West's expectations and even hopes, despite the fears and even dislike of Donald Trump, who frustrates the traditional establishment, for American leadership in the settlement of multiple conflicts, do not mean the restoration of the dominant role of the United States. Trump has already articulated that his strategy will focus on China. Policies on most other fronts will be viewed in Washington “through a Chinese lens”. In parallel, the inability to resolve conflicts signals the near total collapse of the post-war Yalta-Potsdam system, its treaties and institutions.

At the same time, the movement towards a polycentric model is still uncertain and not predetermined. In the Forecast-2024 we have already noted such phenomena as:

- unevenly ongoing processes of slowing globalization/deglobalization and regionalization, both in the trade and economic and security spheres;
- increasing the weight and role in the world politics and economy of the Asia-Pacific region;

⁶ *Andrey V. Kortunov*. From Post-Modernism to Neo-Modernism, or Memories of the Future // *Russia in Global Affairs*. 2017. 30.01. URL: <https://globalaffairs.ru/articles/ot-postmodernizma-k-neomodernizmu/> (Accessed: 19/12/24).

- strengthening of the role of regional powers (Turkey, India) and intensification of international competition (Turkey and China in Central Asia, China and India);
- situational strengthening of the role of small sovereign states using competition for them (between Russia and China – also in Central Asia) to fulfill their national interests in the format of a multi-vector foreign policy.

All these and similar phenomena in the foreseeable future testify, rather, to the expansion of multilateralism, the development of the network postmodern format of international relations. The transactional style only confirms the relevance of these processes to the current stage of global politics.

Russian experts note that the new model of functioning in the global economy will be associated with the emergence of several centers of power, on which the contours of commodity and financial flows will be closed. However, Russia's economic potential, the scientists emphasize, is still insufficient to become a full-fledged center of power. “The constructive scenario for our country is associated with intensive scientific and technological development and ensuring technological achievements of the global level. This will create an opportunity for organic integration into the system of industrial and technological cooperation of friendly countries”⁷. In the case of Russia, these are the BRICS countries and the Global South. An increasingly dynamic manifestation of global restructuring is the increased attention of the leading players to the Global South.

Global South

Attention of the West, as well as of the “developed” developing countries, especially China, India, and Russia to the Global South is sharply revitalized and is gaining momentum. It is caused by a number of factors: political, economic, and security. As we enter the process of active world formation in 2025, a stage in which the countries of the Global South are likely to play an important role – both as objects of policy and competition for developed states, and as increasingly powerful subjects of international relations, it is important to keep in mind the complex of reasons that have returned the Global South to the center of world attention. These include changes in the processes of globalization and its slowdown by the mid-2010s, regionalization processes, the strengthening of the Asia-Pacific region, the US pivot to the East, and the fragmentation of the world economy aggravated by the pandemic. Among the basic factors of the pivot to the South is the rapid growth of China's economic and political influence with its Belt and Road initiative.

At the same time, the Global South remained for a long time mostly on the periphery of Western attention, both Europe and the United States, being more a source of problems than opportunities. Simultaneously, new institutions – BRICS, the India-Pacific Islands Cooperation Forum – began to show interest in the Global South, and new projects and services began to be proposed.

The Ukrainian conflict was the trigger that launched the Race for the Global South. The voices of the 54 member states of the African Group at the United Nations were of particular value when the

⁷ Alexander A. Shirov, Boris N. Porfiriev, Mikhail S. Gusev, Andrey Yu. Kolpakov. Russia in the Conditions of Global Economy Regionalization // World Economy and International Relations. 2024. Vol. 68. № 11. P. 72–83.

General Assembly voted on the relevant resolutions. Their votes are no less important after the escalation of the Middle East conflict⁸.

In 2025, differences in the positions, interests and goals of key actors in the Global South will become more and more apparent, and contradictions and competition will become more and more acute. In addition to the West, China and Russia, the major economies of the South – India and Brazil, BRICS members and the rich monarchies of the Persian Gulf – have actively entered the game in the Global South. There is a struggle for leadership in the Global South, and some experts consider India's chances to be higher than China's⁹.

The US strategy (from 2022)¹⁰ for Sub-Saharan Africa, although “welcoming the subjectivity” of Africa, is focused not so much on eventual opportunities and benefits as on containing US rivals on the continent, primarily China. Europe, with its complicated post-colonial history, immersed in its own domestic political problems and the search for a way out of the Ukrainian conflict, is unlikely to be particularly active in the Global South in 2025.

Russia's opportunities in the Global South in 2025 are likely to be partially limited. Its engagement with the Global South will continue on a bilateral basis and in the format of the actively developing BRICS, which is attracting growing interest in the Global South, which was especially noticeable at the BRICS summit in Kazan in 2024. However, this advantage presents a challenge and risk – Russia's competitors in the Global South are its main partners in world politics: China, the main foreign economic player in the Global South, and India.

One cannot rule out a scenario where, in case the scale of the Middle East conflict grows after the Syrian events, the Global South will become not so much a space of intensive development as an arena for a new military confrontation involving key world players, including the US.

Russia in the world in 2025

In a situation of radical uncertainty, unresolved conflicts, divergence of views on a number of fundamental issues, even with friendly countries, it is preferable to analyze the positions of various players on landmark issues of global development. Although it only confirms the state of uncertainty, it provides some useful reference values.

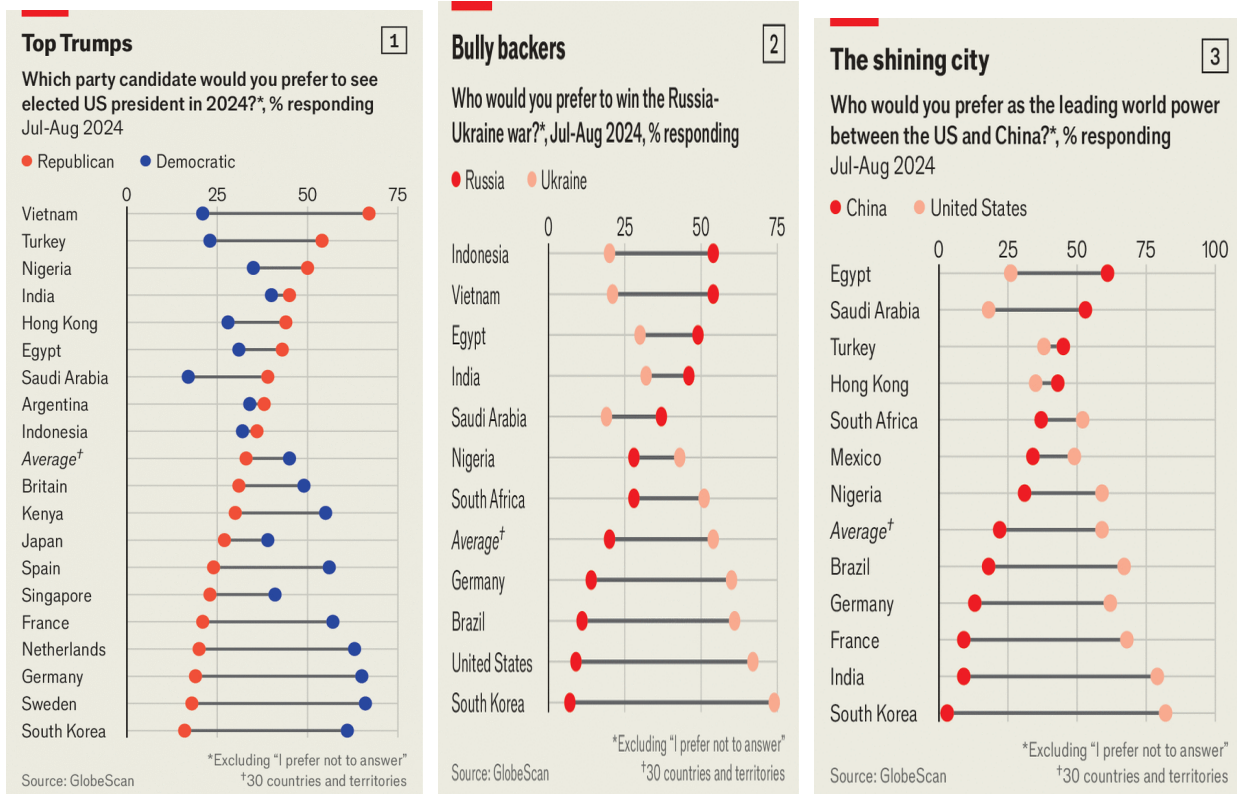
In the survey conducted in July-August 2024 (already after nomination of Kamala Harris instead of Joe Biden as the candidate from the Democrats) among 30 thousand residents of 30 countries and territories around the world (except Russia, China) “What the world thinks of Trump, Ukraine and Chinese supremacy” three questions were asked:

⁸ *Konstantin V. Bogdanov, Timur M. Kadyrmambetov, Irina Y. Kobrinskaya, Boris E. Frumkin.* Turn to the South: Challenges and Opportunities for Russia and Post-Soviet Republics // *Russia and New States of Eurasia*. 2023. No. II (LIX). P. 71-90; *Konstantin V. Bogdanov.* Flexible Coalitions: Origins and Prospects // *Russia in Global Affairs*. 2019. Vol. 17. No. 3. P. 132–150; *Irina Y. Kobrinskaya.* Russia in Global Politics: Quo vadis? In the book: Vladimir G. Baranovsky, Eduard G. Solovyev (eds.), *Year of the Planet: Yearbook 2023: Economics, Politics, Security*. – Moscow: Idea-Press, 2024. P. 56–69; *Konstantin V. Bogdanov, Boris E. Frumkin, Irina Y. Kobrinskaya.* A Race for the Global South or a Battle for the World Majority: Russia's Prospects // *Russia in Global Affairs*. 2024. Vol. 22. Issue 5. P. 64–81.

⁹ *Miller M.C.* China and India Compete for Leadership of the Global South // Council on Foreign Relations. 2024. 01.02. URL: <https://www.cfr.org/blog/china-and-india-compete-leadership-global-south> (Accessed: 15/12/24).

¹⁰ U.S. Strategy Toward Sub-Saharan Africa // The White House. 2022. 08.08. URL: <https://www.whitehouse.gov/wp-content/uploads/2022/08/U.S.-Strategy-Toward-Sub-Saharan-Africa-FINAL.pdf> (Accessed: 20/12/24).

- Which party's candidate would you prefer to see elected President of the United States in 2024?
- Who would you prefer as the winner in the conflict between Russia and Ukraine?
- Who would you prefer as the world's leading global power: US or China?



Source: What the world thinks of Trump, Ukraine and Chinese supremacy // The Economist. 2024. 03.11. <https://www.economist.com/international/2024/11/03/what-the-world-thinks-of-trump-ukraine-and-chinese-supremacy>.

The results of the surveys seem to indicate that:

- there are no "friendliness" correlations: Brazil and South Africa (BRICS members) support Ukraine (Graph 2);
- the transactional approach often prevails. Trade and economic ties play a decisive role, especially in the area of military-technical cooperation - although not always, in the case of Egypt, for example (Graph 3);
- Trump is favored despite widespread worldwide fears about his rise to power in 2024. Across all age groups, Trump came out ahead in a third of countries or territories, including Argentina, Egypt, Nigeria, Saudi Arabia, Turkey and Vietnam. Possible explanations include sympathy for strongman rule and dissatisfaction with the Biden administration.

The surveys confirm our conclusion about the dominance of uncertainty in world politics and international relations, as well as uncertainty in terms of perception of one's national interests.

But this is the kind of "undecided" world that Russia will have to deal with in 2025.

International security — 2025

The crisis of institutions designed to strengthen international security began with the deadlock in the field of arms control against the backdrop of US disregard for the exclusive authority of the UN. This was fully evident as early as the second Iraq war in 2003. The gradual degradation of a number of arms control, disarmament and non-proliferation regimes has gradually led to the politicization of securing institutions, which became particularly apparent in the work of the Organization for the Prohibition of Chemical Weapons (OPCW) in the 2010s.

By 2025, the quantity of deadlocks is gradually turning into quality – the growing dysfunction of global governance, and not only in the military-political sphere. Suffice it to recall the paralysis of WTO institutions due to US-China contradictions. The ongoing degradation, as already mentioned in IMEMO forecasts, is of a systemic nature and is related to the dynamics of the processes of transformation of the world order.

The architecture of arms control and international security in general, as well as institutions of global governance – in a broad sense – are attributes of established systems of international relations of world orders. Such systems imply a quasi-equilibrium, a balance of power within the leading world powers, a more or less clear understanding of spheres of responsibility (influence) and, in general, mutual respect for “red lines”, as well as mutual recognition by the players of norms, rules, orders and customs. In the conditions of a transformational world order, the institutions of the former world order are under pressure of circumstances and new challenges, not always being able to give them an adequate response or become a functional tool for harmonizing the interests of the backbone world powers¹¹.

In 2025, there will continue to be notable changes in the great powers' approaches to bloc politics. Previously, many researchers noted a drift toward ad hoc coalitions formed as opposed to permanent alliances. Now it has been supplemented by a clear vector toward strengthening the military and political dominance of the United States by building a network of bilateral and multilateral military alliances¹². This has been particularly noticeable in recent years in the Asia-Pacific region. There, the United States is trying to assemble a multifaceted and multilevel system of forceful deterrence against China, built around the concept of the Indo-Pacific Strategy. The concept is combined with controversial military-technical initiatives (exemplified by AUKUS, which raises questions about the horizontal modern arms race) and the rapid proliferation of long-range missile weapons (both in the form of arms transfers and through the deployment of US systems in the region). This trend jeopardizes the very concept of peaceful sustainable development in Southeast Asia.

Combined with the increasing military-technical cooperation of non-Western countries under sanctions, this further undermines previous regimes of non-proliferation of military and dual-use technologies, as well as unified export controls.

¹¹ On the connection and differences between the concepts of world order and world system, see, e.g.: Feodor G. Voitlovsky. *Instability in the world system // International Trends*. 2009. Vol. 7. No. 19. P. 4–16.

¹² *Igor A. Istomin, Andrey A. Baykov*. *Alliances at the Service of Hegemony: Deconstruction of the Military Domination Toolbox // Polis. Political Studies*. 2020. No. 6. P. 8–25.

And this is another sign of the crisis, and perhaps the beginning of dying out of these institutions of the previous world order.

In 2025, these processes will continue to develop under the influence of the gained inertia. In the field of international security, contradictions will accumulate that are not resolved through normative institutions of collective security due to the weakness of the latter. The crisis state of the world order pushes to go beyond the limits of acceptable behavior in order to ensure national security in an increasingly insecure international environment. As long as such institutional weaknesses in global and regional security systems persist, the number and scope of conflicts are likely to continue to grow. Previously frozen conflicts may get an impetus to unfreeze and move into a hot phase, including up to unilateral forceful solutions.

An example here will be the war in Nagorno-Karabakh in 2020, which finally ended in the fall of 2023 through the unilateral reunification of Karabakh with Azerbaijan by force. At the same time, the political formalization of the end of this conflict through the settlement of relations between Armenia and Azerbaijan has not yet occurred, and the conflict is at the stage of de facto resolution.

This is also fully true for the conflict in the Middle East centered around the confrontation between Israel and Iran, including pro-Iranian proxy forces in the region. Iran's loss of an institutional channel for normalizing relations with the West, mainly due to the destruction of the Joint Comprehensive Plan of Action (JCPOA) on the nuclear program as a result of US actions, has led to its search for brinkmanship in the region over the years.

In 2025, such an environment may also push Israel to take radical forceful decisions against hostile forces in the peripheral territories (in the Gaza Strip and Lebanon, as well as in Syria). This, in turn, would largely nullify the processes of settlement of the Palestinian problem launched in the early 1990s, potentially returning the situation to that observed during the period of intense Arab-Israeli wars.

At the same time, the special role of Turkey in the Syrian civil war and during the collapse of the Assad government allows to speak about the continuation in 2025 of the intensive formation of a group of regional powers in the Middle East, linking their policy, among other things, with military actions on the territory of neighboring countries, if it corresponds to their declared interests.

The Ukrainian crisis can also be characterized in this logic. The long, since the mid-1990s, accumulation of unsolvable problems in Russia-NATO relations, accompanied by complete disregard for Moscow's concerns in matters related to the periphery of Russia's borders, spilled over into high-intensity hostilities in the center of Eastern Europe. In this sense, we can speak of the Ukrainian crisis as a consequence of the dysfunction of the common institutions of European security, which were unable to stop the dissipation of relations and manage the risks of armed conflict. At the beginning of 2025, there are still no systematic solutions to the Ukrainian crisis.

At the same time, it should be emphasized that the Ukrainian conflict plays a special role due to its scope, severity and the level of players involved in it. In this sense, another peripheral conflict of the era of transformation of the world order turned out to be inextricably linked to much larger problems of the foundations of relations between Russia and the Western world, their sustainability and mutual acceptability. This means that its resolution is closely linked to the formation of

elements of the institutional basis for a new security architecture in Europe and, indirectly, worldwide, since the Ukrainian crisis has clearly acquired several global dimensions at once (including food, energy and demographic). The increased international attention to the conflict as a focus of global contradictions, which has persisted throughout 2024, provides hope for finding package solutions beyond battlefield victory in the years to come. However, their achievement will be defined in rather small windows of opportunity. In addition, solutions directly to the conflict may not fully address its root causes, leaving it as a delayed-action mine in the medium term.

In 2025, the transformation of the market of armaments and military technologies will continue, as well as the securitization of the market of critical civilian technologies. The latter can be clearly seen in the market of microelectronic components, perspective telecommunication technologies and development of artificial intelligence. With regard to key civilian technologies, the application of organizational practices and procedures previously more typical for defense R&D and military production will be developed.

There is a gradual formation of a bloc policy on critical technologies. In particular, NATO will continue to actively pursue a policy of stimulating innovation on the list of critical breakthrough technologies, without separating, in essence, military, dual-use and purely civilian areas. Such a conclusion can be drawn from an analysis of the current practices of the NATO Science and Technology Organization, established in 2012.¹³

In 2025, the processes of shaping of partially isolated technological platforms, which we noted two years ago¹⁴, will continue to develop. The securitization of global technology markets by the main players will continue to push them towards the formation of a fragmented mode, which is less efficient from a purely economic point of view, but more sustainable in terms of responding to potential challenges and threats of a geopolitical nature (at least as the main players perceive these threats). Closing the chains of output of securitized high-tech products should be seen as one of the methods of reinforcing military-political alliances. This trend is expected to intensify in 2025 due to decisions on forced localization of a number of critical production and resource chains within the perimeter of the main players (the US and its Western allies, China, and since recently Russia).

Similar trends are expected in 2025 in the global arms markets, which are experiencing strong pressure of “platformization”, aggravated by the strong military-political significance of arms transfers. The involvement of allies in development projects and production chains of expensive and complex military products will continue to be used as an effective tool for maintaining military-political spheres of influence. The importance of this tool will only continue to grow in the future due to the fact that major weapon and military equipment systems are currently developed for a long time, cost a lot, and once they are adopted into service, they are used for a long time, being repeatedly modernized in the course of their service. This additionally binds the defense-technical policy of recipient countries of advanced weapons to the leading donor countries that serve as sources of such systems.

¹³ Herzog S., Kunertova D. NATO and Emerging Technologies – the Alliance’s Shifting Approach to Military Innovation // Naval War College Review. 2024. Vol. 77. No. 2. P. 47–69.

¹⁴ Russia and the World: 2023. Economy and Foreign Policy. Annual Forecast // Eds.: Givi I. Machavariani, Irina Y. Kobrinskaya. — Moscow, IMEMO RAS, 2022. P. 10.

PART II

ECONOMY

RUSSIAN ECONOMY: SANCTIONS PERSIST

In 2024, the Russian economy faced the task of transition from short-term anti-crisis adaptation to the creation of preconditions for the continuation of dynamic economic growth, at least in the medium term. This suggested the implementation of the third radical reversal in economic policy and economic development in recent years. Throughout 2022, due to the radical reorientation of foreign economic ties and macroeconomic stabilization measures, it became possible to avoid the collapse of the Russian economy, expected by the initiators of anti-Russian sanctions, and to reach a moderate GDP decline rate of -1.2%, which was not only less than the “catastrophic” forecasts of the period of radical escalation of sanctions (for example, the IMF in April 2022 forecasted Russia's annual GDP decline by 8.5%), but even the actual GDP decline during the coronavirus crisis in 2020 (-2.7%). In 2023, support for the expansion of domestic demand (both through budgetary and market channels – by replacing imports with domestic production) provided the country with a strong GDP growth of 3.6%, which allowed the country to overtake the corresponding indicator for the world economy for the first time since 2012 and significantly surpass the indicators of economically developed countries – initiators of anti-Russian sanctions (for comparison: the growth rate of the US economy in 2023 amounted to 2.9%, the Eurozone countries – only 0.4%). In order to maintain growth dynamics in 2024 and beyond, the Russian economy had to find mechanisms to increase output at the achieved level of demand by eliminating supply bottlenecks. Progress on this path, however, turned out to be rather limited.

Throughout the first half of 2024, the Russian economy continued to rely on the development potential accumulated in the previous year, but already in the second quarter there were signs of growth slowdown (if in January-March the country's GDP grew by 5.4% in annual terms, in April-June the corresponding indicator amounted to 4.1%). The slowdown in GDP growth accelerated in the third quarter (to 3.1%). The main factors that ensured this result include the exhaustion of extensive opportunities for geographical reorientation of Russia's foreign trade in the sanctions environment, growing problems of labor force availability and tightening monetary policy of the Central Bank of Russia. Despite this, the results of the national economy development in January-October 2024 turned out to be quite positive.

The country's GDP grew by 4.2% in the first 3 quarters of 2024 (in the same period of 2023, the corresponding indicator amounted to 3.2%), which allows estimating GDP growth for the year as a whole in the range of 3.7-4.1%. The expansion of industrial production also showed acceleration compared to 2023: in January-October 2024 it increased by 4.4% (compared to 4.1% in the same period of the previous year); at the same time, manufacturing industries showed outstripping growth – by 8.1%. It is significant that the growth of manufacturing industries took place in a wide range of sectors – from the production of computers, electronic and optical products (34.8%), finished metal products (29.8%) and motor vehicles (19.0%) to the production of medicines and medical materials (13.9%), furniture (9.0%), beverages (9.8%) and foodstuffs (4.1%). Thus, the expansion of domestic demand affected the production of both investment and consumer goods. This, in turn, refutes the popular belief among some experts that budget expenditures are the main source of domestic demand expansion: de facto, in many segments of the consumer sector there was a substitution of imported goods, which had become unavailable, with domestically produced goods, which was responsible for the positive dynamics in the relevant industries.

As for the constraints to economic growth, the impact of changes in the foreign economic environment (including those associated with the sanctions restrictions imposed on the Russian Federation) had an impact primarily on the volume of raw materials exports and, consequently, on the performance of the extractive industry, whose output in January-October 2024 decreased by 0.7% in annual terms. The lack of human resources was invariably mentioned in expert discussions in 2024 as an even more significant constraint to economic growth. In particular, according to the survey conducted among the participants of the national project Labor Productivity, 67% of enterprises of the non-resource sector named it as the main problem hindering the development of economic activity. The total number of the unemployed according to the methodology of the World Labor Organization decreased by 20.1% in January-October 2024, reaching the value of 1.8 million people. On the one hand, this is a positive sign that the economy is approaching full employment - a goal that is traditionally considered as one of the key priorities of economic policy. On the other hand, the labor shortage leads to additional costs for employers (the nominal average monthly salary of employees of organizations increased by 118.0% over the period under review) and in some cases makes it fundamentally impossible to hire qualified employees even if wages are increased (if competing companies offer more favorable conditions).

In addition to the overall growth of domestic demand in the national economy, the current problem has at least two additional sources: first, the shift of labor force to the defense and security sector; second, the demand for it from new service sectors related to the assembly, packaging and delivery of orders received from households and businesses. According to the data of the Ministry of Industry and Trade, announced in early December 2024, the relevant sectors employ about 1.5 million people, whose wages often exceed the wages in the real sector of the economy. Although the temptation to solve this problem by administrative bans is misplaced, there is an obvious structural disproportion, a serious discussion of which is necessary for a clear understanding of the challenges faced by the Russian labor market.

Another problem, which is closely related to the growth of domestic demand in the context of limited opportunities to expand supply, is the acceleration of inflation. In January-October, consumer price growth in Russia amounted to 8.3% compared to 5.5% a year earlier. The management of the Central Bank of Russia, focusing on the annual consumer inflation target of 4% set back in 2015, consistently increased the key rate in 2024, motivated by the need to bring inflation to this target. At the end of 2024, the arguments in favor of raising the key rate were supplemented by the argument to prevent the Turkish scenario, i.e. the growth of inflation rates to double-digit values, not restrained by the increase in interest rates. These arguments, however, are not free from criticism.

First, the inflation target of 4% could be regarded as an acceptable benchmark in a stable macroeconomic situation, but in the context of turbulent geopolitical conditions that pose new challenges to both the Russian economy and its stimulation policy, its appropriateness is disputable. An adequate economic discussion on this issue, however, is still absent. Second, the comparison with Turkey cannot be considered justified: while in Turkey (taking into account the costs of its geopolitical ambitions, clearly implemented during the offensive of Turkish proxies in Syria in November-December 2024) monthly inflation rates during 2024 fluctuated in the range of 47-76%, in Russia these rates are 5-9 times lower. Thirdly, already in November, interest rates on bank deposits centered on the CBR key rate were comparable to the margins of many businesses, which

undermines incentives to conduct operations in the real sector (thus, bottlenecks in the supply of goods and services are not eliminated, but multiplied). Finally, fourth, reducing the incentives for consumer credit growth can be equally effective in countering rising inflationary trends without the negative effects associated with a key rate hike.

At the end of 2024, an additional factor of uncertainty affecting the development prospects of the Russian economy was changes in the US Federal Reserve policy and new economic sanctions imposed on the Russian banking sector (in particular, Gazprombank, which serviced Russian gas exports). This led to a new wave of discussion of short-term stabilization measures aimed at ensuring macroeconomic stability (in particular, stabilization of the ruble exchange rate). Despite the importance of the relevant issues, one should not forget that the key task for the next few years is to create conditions for the expansion of the supply of goods and services in the context of increased domestic demand, which will contribute, among other things, to the reduction of inflationary trends. If this is achieved, the factors of slowdown of the Russian economy, which appeared in 2024, will be neutralized to a significant extent, which will ensure GDP growth rates in 2025 in the range of at least 2.5-3.0%. Otherwise, i.e. in the absence of progress in supporting the supply of goods and services and maintaining a high level of the key rate, economic growth rates are unlikely to remain above 2%.

GLOBAL ECONOMY: GROWTH IN TURBULENT CONDITIONS

Global economic development in 2025 will be driven by several major factors: the still lingering effects of the COVID-19 pandemic, the transition to a green economy, the implementation of the climate agenda, and the accelerating shift to information and communication technologies.

The continuation of the Middle East and Ukrainian crises will have a negative impact on the global economy. Their possible resolution is unlikely to restore pre-crisis relations between the countries, and their negative impact on the development of the global economy will persist.

The IMF estimates that the world economy will grow by 3.2% in 2025. According to our estimate, the growth rate will be higher – 3.3%.

Table 6. GDP growth rate, %.

	IMF estimate		IMEMO estimate	
	2024	2025	2024	2025
World	3,2	3,2	3,2	3,3
Developed countries	1,8	1,8	1,8	2,0
USA	2,8	2,2	2,9	3,0
Japan	0,3	1,1	0,5	1,2
United Kingdom	1,1	1,5	1,0	1,2
EU	1,1	1,6	0,9	1,3
Eurozone	0,8	1,2	0,8	1,2
Germany	0,0	0,8	-0,1	0,6
France	1,1	1,1	1,1	1,0
Italy	0,7	0,8	0,6	0,9
Developing and emerging market countries	4,2	4,2	4,2	4,0
China	4,8	4,5	4,8	4,5
India	7,0	6,5	6,8	7,0
Brazil	3,0	2,2	3,4	3,0
Russia	3,6	1,3	3,7	2,0

Source: IMF WEO Database, IMEMO RAS.

The main consequence of the pandemic, as we see it, was inflation, which peaked in 2022 (8.7% for the world economy). In 2024, according to IMF estimates, global inflation will be 5.8%; in 2025 – 4,3 %. At the same time, in developed countries it will decrease from 2.6% in 2024 to 2.0% in 2025, and in other countries – from 7.9% to 5.9%, respectively, i.e. pre-crisis indicators will be achieved. In case of prolongation of conflicts or their aggravation, a return to price growth (food, energy resources) is possible. Under these conditions, central banks of developed countries have moved to lower interest rates. In the USA, the Federal Reserve reduced interest rates from peak values of 5.25-5.5% to 4.75-5.0% in September 2024 and 4.5-4.75% in November. The ECB and the Bank of England have also cut rates, and the process of reduction is continuing.

The US economy in 2025 will grow at approximately the same rate as in 2024 – about 3%. The crisis constantly predicted for 2024 has not occurred and, according to our assessment, will not occur in 2025. Another crisis is thought to occur when the Fed moves to lower interest rates. This prediction is also supported by the persistent inversion of two- and ten-year Treasury bond yields. However, in our view, the changes that have taken place in the US economy in recent years are of such a kind that pre-existing patterns are no longer valid. It is about modification of state regulation, transformation of the entire financial system, especially the banking system, which has significantly increased their stability, wide use of the latest ICT achievements. Inflation has significantly decreased, although it still exceeds the target level of 2%, but the process is ongoing and, according to our estimates, the target level will be reached in 2025. Unemployment stood at 4.2% in November 2024 and, judging by current trends, will remain at historically low levels. Personal income is growing steadily and will exceed the pre-pandemic level in 2024, we estimate. A number of other indicators – job creation, a large number of available jobs that far exceed the number of unemployed, rising real incomes, and rising personal consumption – give us reason for such a forecast. The likely economic course of the new administration is expected to support these trends.

The Chinese economy in the context of serious domestic problems related to the real estate market, outflow of foreign investments, possible restrictions in trade with the US and the EU, according to our estimates, will grow by 4.5% in 2025, which is lower than our estimate of 4.8% in 2024. Another serious problem of the Chinese economy, according to our estimates, is deflation, the beginning of the decline in prices, which has not yet been managed. This course of events in the Chinese economy allows us to conclude that in 2025 China will not regain its role as a driver in the markets for raw materials, especially energy resources.

India's economy will grow at a high rate, which we estimate will reach 7.0% in 2025, higher than the IMF's forecast (6.5%). Domestic reforms coupled with the attraction of foreign capital are driving this growth in the Indian economy.

Productivity growth and economic acceleration are driven by the increase in global science spending after 2020, driven by the COVID-19 pandemic. In 2022, according to the OECD, R&D spending has reached enormous proportions. Not so long ago, we thought that spending on science at 3% of GDP was the limit for a modern economy. In 2022, 8 countries surpassed this level: Israel – 6.02%; South Korea – 5.21%; USA – 3.59%; Sweden, Belgium, Japan – 3.41% each; Austria – 3.20%, Germany – 3.13%. Another two countries – Finland and Denmark – have almost reached this level, their R&D expenditures amounted to 2.96% and 2.89% of GDP. According to our estimates, R&D expenditure continues to grow. In 2022, the country with the highest R&D

expenditures was the United States at \$923 billion; China's expenditures exceeded \$453 billion; Japan's expenditures exceeded \$145 billion; and Germany's expenditures exceeded \$128.0 billion. In the European Union, total R&D expenditures exceeded \$354 billion.

The accelerated development of information and communication technologies, which have become the most important factor determining the development of the world economy, will continue. Their production volumes and share in the export of goods and services are growing rapidly. In the United States, the volume of ICT production amounts to 7% of GDP, which in value terms has reached \$2 trillion. The share of ICT in the world export of goods and services is 11%.

The international division of labor, its speed, scale, directions, according to our assessment, will continue to exceed the rate of development of the world economy in the long term. In the next year or two their rates may coincide, but the long-term trend of globalization will exceed the rate of development of the world economy, their ratio will be 1.1-1.2.

Global trade

The growth rate of international trade, which sharply decreased in 2023, increased again in 2024, amounting to about 3.0%, according to preliminary estimates. In 2025, this indicator may increase slightly to 3.4%, which will be a bit higher than the growth rate of world GDP. The elasticity of world trade by GDP will be at the level of 1.1. Trade in services, the share of which in the world trade will increase, will grow at an outpacing rate.

Inflation is likely to continue to weaken in 2025, allowing central banks to lower the discount rate, which will stimulate consumer and investment demand, as well as favorably affect the dynamics of global trade. At the same time, the factors restraining its growth will remain in force, the most important of which is the aggravation of the geopolitical situation, accompanied by regional conflicts.

The return to office as US President Donald Trump, who announced his intention to significantly increase import duties (by 10-20% on all goods and by 60% on goods from China), gives reason to expect a stronger protectionist bias in the US foreign trade policy and an aggravation of the economic confrontation with China.

Beijing, in turn, may also introduce restrictive measures in trade with the United States, not only with regard to imports (e.g., agricultural products), but also to exports (in particular, rare earth elements, a significant portion of the world's reserves of which are concentrated in China). If this scenario materializes, Chinese companies will increase domestic sales and seek new markets, mainly in developing countries. Expansion of Chinese exports to the EU is unlikely, as Brussels is also concerned about the growth of supplies from China and has taken restrictive measures, although not as stringent as those imposed by Washington.

Some of US-China trade flows will be redirected to third countries that act as intermediaries or can provide alternative sites for the relocation of US companies' overseas investments. These include Vietnam, India, Indonesia, Malaysia, Mexico, and a number of other countries in the Americas and Asia.

The trade contradictions between the US and the EU, which have intensified in recent years, may also deepen with the coming of Donald Trump, which will undoubtedly have a negative impact on the state of bilateral trade.

An aggravation of the situation in the Middle East, which plays a major role in energy supply, could lead to an increase in global mineral fuel prices. If this happens, a general increase in production costs is inevitable, with pro-inflationary effects and a dampening effect on global economic growth, demand and, consequently, international commodity exchange.

The deterioration of maritime safety in this region, through which important maritime routes pass, is harming international shipping and trade by increasing the cost of transportation of all goods through the use of more expensive alternative routes and increased insurance costs for ships and cargo. Trade between Europe and Asia could be most affected by the development of a crisis preventing the use of the Suez Canal.

While the problems of the Suez Canal are fundamentally political, the crisis of the second most important canal, the Panama Canal, is climate-related. Currently, the Panama Canal is recovering its capacity, which was limited due to drought. However, a reoccurrence of the situation in 2023-2024, which led to a significant limitation of its capacity, cannot be ruled out in the future.

The factors constraining the growth of world trade simultaneously lead to its fragmentation. Factors such as the effects of the pandemic, the strengthening of the economic position of developing countries, the policy of re-industrialization in developed countries, the emergence of new production technologies, and the stagnation of the WTO operate in the same direction.

The restrictions imposed by Washington apply to both trade and technology exchange. The danger of not only a breakdown in trade and cooperation ties, but also a technological split is growing. Electric cars and semiconductors are the two sectors of the global market where competition is most intense today. It is not excluded that the sphere of fierce competition, in which the governments of leading countries are involved along with companies, will expand to other sectors of the world market represented mainly by high-tech products. The continued expansion of Chinese companies will lead to an increase in countermeasures on the part of Western countries, which will be another step towards the fragmentation of global trade.

Trade within political blocs may grow faster than trade between blocs, and within world regions than between regions. This pattern may manifest mainly in trade in goods whose suppliers are relatively easy to replace. In markets for goods with a limited number of suppliers, high diversion costs have a strong chance of becoming a decisive argument for maintaining the status quo.

Accompanying fragmentation, the disruption of established trade and cooperation links increases production and transaction costs, while general instability, exacerbated by sharp shifts in the foreign trade, investment and monetary policies of major global market players, negatively affects business activity and has a dampening effect on world trade. The world food market is particularly vulnerable in this regard, with prices reacting strongly to supply-side changes and transportation problems. If the trend towards trade fragmentation deepens, small economies that are more dependent on external linkages, as well as developing countries in need of inflows of equipment and technology from abroad, will be most affected.

Fragmentation is countered by deep international economic interdependence, which motivates the opposing sides, including Washington and Beijing, to find mutually acceptable solutions. In this regard, it can be assumed that the trend towards fragmentation of world trade will be limited, mainly affecting countries directly involved in trade and geopolitical conflicts.

The foreign trade turnover of developing countries will increase at a faster pace. The most dynamic growth will be in foreign trade of Asian countries, which often act as intermediaries in trade between geopolitical blocs.

The foreign trade of North American countries will increase at an average rate. Here the prospects for growth of foreign trade are good for Mexico, which has chances to increase its role as a link between the competing parties.

Europe's foreign trade turnover, which has been contracting between 2023 and 2024, will resume growth, which is likely to be rather moderate, reflecting the overall low growth rate of the European economy.

Slow growth will be characteristic of foreign trade of the countries of Africa and South America. The participation of Middle Eastern countries in international trade will be subject to significant fluctuations due to political factors. The role of BRICS countries will increase in the world trade turnover, mainly due to China and India.

The crisis experienced by the WTO contributes negatively to the instability of trade policy and the strengthening of protectionism. The weakening of compliance control with WTO norms encourages countries to adopt unilateral trade and political measures, a significant part of which is aimed at restricting foreign trade exchange. The development of transnational production, e-commerce, trade in services and other forms of foreign economic relations has raised a number of questions for the WTO, the answers to which have not yet been found. The organization needs to be reformed, and a plan to transform the WTO is being developed. However, the contradictions between the key participants of the multilateral trading system make the prospects of reaching consensus on its content and implementation timeframe extremely uncertain.

GLOBAL MONETARY SYSTEM

The current year is characterized by a significant reduction in inflation rates in developed countries. At the same time, geopolitical tensions associated with military conflicts not only have not decreased, but are gripping more countries. Therefore, it seems that in 2025 the following factors will influence the global monetary and financial system.

Firstly, it is the beginning of the phase of interest rate cuts by the leading central banks. Secondly, the expected further decline in growth rates in China along with the intensification of negative trends in the mortgage market of this country. Thirdly, there is a risk of a serious escalation of the conflict in the Middle East. Finally, it cannot be excluded that Donald Trump, newly elected President of the USA, will take some drastic measures against Russia, China, Iran or North Korea, which may cause turbulence in the global oil and gas market, the consequence of which may be an acute reaction of the global financial markets.

Currencies. The US dollar is still a global currency, far surpassing any other currency in terms of the scale of its international use. In 2024, as a result of the transition to the phase of rate cuts by the leading central banks, the fluctuations of the US dollar exchange rate against major currencies did not demonstrate extreme behavior. Thus, the dollar exchange rate to the single European currency fluctuated in the interval of \$1.07-1.11 per euro. The exchange rate to the pound sterling demonstrated similar dynamics, fluctuating in the range of \$1.25-1.32 per pound. The Japanese yen weakened against the dollar in the first half of 2024 from 146 to 158 yen per dollar, but then the divergent interest rate policies of the Bank of Japan and the US Federal Reserve stimulated a short-term strengthening of the yen to 143 per dollar. However, following the US presidential election, the dollar strengthened against other currencies as markets believe the Fed will be forced to slow the pace of rate cuts to respond to Trump's pro-inflationary economic policies.

Further behavior of the exchange rates of major reserve currencies will mainly depend on what interest rate policy will be continued by the leading central banks. If the Fed continues to cut rates, then the dollar will mostly weaken against other currencies. In such a scenario, the dollar would probably fluctuate against the euro in the range of \$1.1-1.15 and against the pound sterling in the range of \$1.30-1.35. It seems more likely that the Fed will stop with a rate cut.

The new thing in the currency sphere in 2025 could be a favorable turn of the US administration towards cryptocurrencies. At least, this is the expectation that some statements by Trump and a number of politicians have triggered, which prompted a sharp rise in the digital asset markets. However, it is still very difficult to say with certainty how the US policy in the cryptocurrency sphere will be changed.

As for Japan, depending on the political situation, the yen may strengthen to 125-135 yen per dollar in the first half of the year, but in such a case, the Central Bank of Japan is likely to stop tightening monetary policy and take measures to weaken the national currency to 145-150 yen per dollar.

The most probable in the dynamics of the Chinese RMB is a repetition of its behavior in 2024, when it weakened slightly at the beginning of the year and strengthened a bit 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 US and its allies to prevent the circumvention of anti-Russian sanctions through these countries, as well as their possible involvement in the conflict in the Middle East.

Thus, unless there are some unpredictable and ill-considered sanctions measures on the part of the US and its allies, no threats to the dollar's dominance are expected next year. However, its share in international use is likely to continue its long-term trend of slow decline.

Inflation. In 2024, the price spike that occurred in many leading countries as a result of the COVID-19 pandemic has been virtually suppressed. Thus, annual global inflation is expected to reach a level of 5.0% by the end of 2024, compared with 6.0% at the end of 2023 and 8.8% at the end of 2022. In the leading economies, this trend is generally expected to continue next year. Thus, projected year-end inflation in 2024 and 2025 in developed economies will be 2.2% and 2.0%, respectively (USA – 2.3% and 1.9%, Japan – 1.8% and 1.8%, Germany – 2.0% and 2.1%, France – 1.5% and 1.8%, UK – 2.5% and 2.0%), on average for developing countries this indicator is expected to be 7.0% and 5.2 % (China – 1.0% and 2.0%, India – 4.2% and 4.2%, Brazil – 4.3% and 3.3%, Mexico – 4.5% and 3.2%)¹⁵.

If expectations of lower growth in China are met, then the slowdown in Chinese demand will be an additional factor in reducing global inflation. However, the tense geopolitical environment could escalate further in 2025, possibly leading to disruptions in the supply of goods, components or raw materials, which in turn could send global inflation back up. If tensions in the Middle East are resolved in the coming months, it is possible that we could see a sharp fall in global commodity prices, which in turn would trigger pronounced deflationary trends in advanced economies.

Interest rates. This year, the central banks of the world's leading countries, in particular, the Fed, the ECB and the Bank of England, have moved to lower interest rates, while inflation has not fallen to target levels in all countries. Thus, the transition from the phase of tight monetary policy to lower interest rates took about 1.5 years for the ECB, and more than 2 years for the Fed and the Bank of England.

Thus, in September 2024, the US Federal Reserve lowered the rate from 5.25/5.5% to 4.75/5.0%, and in November to 4.5/4.75%. The European Central Bank lowered its rate from 4.5% to 3.4% during the year, and the Bank of England lowered its rate from 5.25% to 4.75%. The Bank of Japan, which had maintained a negative rate of -0.1 % for many years, switched to a gradual increase in 2024. As a result, this rate reached 0.25% by the fall of 2024.

In China, the phase of rate cuts by the People's Bank of China also continued in 2024. Thus, in October the rate on one-year loans was reduced to 3.1% p.a., and on five-year loans to 3.6%, as a result of which both reached record lows.

In 2025, the leading central banks are likely to be driven by the intention to support uncertain economic growth in order to prevent a recession. At the same time, GDP forecasts for 2025 are generally not very optimistic. In the US, for example, growth is expected to fall to 2.2% versus

¹⁵ IMF World Economic Outlook Database, October 2024 // International Monetary Fund. URL: <https://www.imf.org/en/Publications/WEO/weo-database/2024/October> (Accessed: 11/12/24).

2.8% in 2024, and in China to 4.5% versus 4.8%. Whereas the Eurozone is expected to improve slightly, from 0.8% in 2024 to 1.2% in 2025, with Germany expected to grow from 0.0% to 0.8% and France zero growth. The UK is forecast to grow from 1.1% to 1.5%, as well as Japan from 0.3% to 1.1%¹⁶.

Therefore, it seems most logical that in 2025 the leading central banks, except for Japan, will continue to lower rates: in the US to 3.75-4.0%, in the Eurozone to 2.0-2.25% and in the UK to 3.5-4.0%. In the US, however, the situation may be more complicated, as the economic program of President Trump, who has returned to power, is seen as pro-inflationary, which may cause higher inflation rates than expected. This, in turn, may force the Fed to slow down the pace of rate cuts and possibly even raise rates again at the end of 2025.

At the same time, in Japan the outlined further rate increase may be suspended. The ruling party coalition, which was the main supporter of tightening monetary policy in Japan, lost its majority in the country's parliament in the October elections. Although its representative retained the post of prime minister, the country has a de facto minority government, which will force it to seek compromises with the opposition. However, other political forces do not support the idea of raising the interest rate by the Bank of Japan.

Based on the above, credit conditions in all developed countries are likely to improve in 2025 as interest rates fall. In developing countries, the picture will be roughly the same, but at a higher (2-3 times higher) level of interest rates.

Gold. In the second half of 2024, there was a strong upward trend in the price of this metal, which at the end of October reached a record level, exceeding the mark of \$2,800 per ounce. The main reasons for such dynamics were the continued easing of monetary policy by the monetary authorities in the leading countries, and primarily by the US Federal Reserve: i.e., after the Fed's move to lower interest rates, there was a decrease in demand for the dollar. In addition, in the second half of the year, geopolitical tensions in the Middle East seriously escalated, which also caused an increase in interest in gold as a protective asset.

Global demand for gold in the third quarter of 2024 increased by 5% year-on-year, reaching a record for the quarter at 1,313 tons. In value terms, purchases of this metal in the third quarter of 2024 surged by 35% in annual terms, exceeding USD 100 billion for the first time. At the same time, demand for jewelry gold fell by 12% year-on-year. At the same time, in the first 9 months of 2024, gold purchases by global central banks amounted to 693 tons - a drop of 13.4% year-on-year. However, in 2023, the purchases by the monetary authorities were record-breaking, so the decline in this indicator in 2024 does not yet indicate that the trend of increasing gold reserves of central banks has been interrupted¹⁷.

However, next year, the main factor affecting the gold price is likely to be President Trump's economic policies, which are expected to stimulate some strengthening of the dollar, causing investors everywhere to shift from protective gold assets to dollar-denominated assets. Since the

¹⁶ IMF World Economic Outlook Database, October 2024 // International Monetary Fund. URL: <https://www.imf.org/en/Publications/WEO/weo-database/2024/October> (Accessed: 11/12/24).

¹⁷ Gold Demand Trends Q3 2024 // World Gold Council. 2024. 30.10. URL: <https://www.gold.org/goldhub/research/gold-demand-trends/gold-demand-trends-q3-2024> (Accessed: 12/12/24).

gold price is typically in counter-phase to the dollar exchange rate, it is likely to range between \$2,400 and \$2,700 per ounce in 2025.

Public debts. Government borrowing continued to grow in most of the world's major economies in the outgoing year. As a result, it is expected that by the end of 2024 the total government debt of all countries of the world will exceed \$100 trillion, reaching 93% of global GDP. At the same time, more than half of this public debt is accounted for by the countries that together account for 2/3 of global GDP and will continue to increase their public debt. Thus, by the end of 2024, the US government debt will grow from 119% of GDP to 121%, China – from 84% to 90%, Japan – from 249% to 251%, Eurozone countries – from 87.8% to 88.1%. However, the rate of debt growth will differ by economy. Thus, in the Eurozone as a whole, its increase is likely to be noticeably slower than in China and the US¹⁸.

The main reasons for the growth of the national debt are the increase in spending on health care, climate change, defense and energy security. Although the situation around the US debt ceiling has been tense during 2024, a debt default in major economies is highly unlikely. Only Japan may be an exception, as this country has a very high level of government debt, while almost all of it is bought by the Central Bank of Japan, which in 2024 switched from a negative interest rate to a moderate increase. However, it should be borne in mind that although Japan's total public debt in 2023 reached 249.7% of the country's GDP, its net public debt, i.e. excluding highly liquid assets of the Japanese state, such as foreign currency, bonds, etc., amounted to only 154.1% of GDP in the same period¹⁹.

In 2025, the public debt/GDP ratio is forecast to rise to 124-126% in the US, 115-117% in France and 104-105% in the UK, while in Germany it is expected to continue to decline to 61-62%; Japan is also likely to return to a reduction in public debt to 248-249% of GDP. In developing economies as a whole, public debt is expected to rise to 73-74%, including in China to 94-95%, while India is likely to resume its trend of reducing public debt to 81-82%.

Equity markets. This year, the markets were mainly influenced by two factors: on the one hand, the transition of the leading central banks from raising to lowering interest rates (except for Japan, which moved to an increase), and on the other hand, fears of a global recession. The aggravation of geopolitical tensions in the Middle East also made its contribution. Nevertheless, during 2024 the main stock indices grew steadily, reaching new record highs. Thus, DJIA by November 11 rose from 37,724 to 43,293, NASDAQ – from 14,565 to 19,298, and S&P500 – from 4,742 to 6,001 from the beginning of the year.

Expectations for 2025 are not quite unambiguous: they include both the possibility of strong growth in the leading economies due to the transition of their central banks to the phase of interest rate cuts, and the non-zero probability of global recession, as well as possible extravagant decisions of President Trump. Therefore, equity market dynamics in early 2025 are likely to show growth on a wave of optimistic expectations, which will probably then correct downwards.

¹⁸ Fiscal Monitor. Putting a Lid on Public Debt // International Monetary Fund. 2024. October. URL: <https://www.imf.org/en/Publications/FM/Issues/2024/10/23/fiscal-monitor-october-2024> (Accessed: 15/12/24).

¹⁹ Ibid.

Risk concentrations – 2024. The situation around Ukraine remains the main source of uncertainty. At the same time, a complex geopolitical crisis is developing around the conflict between Israel and Hamas, which has already spilled over to Lebanon and involves Iran, and the uncertainty of the situation in Syria. In case of their further escalation, these factors may have an unforeseen strong negative impact on the global monetary system.

Foreign direct investment: trends and forecasts. Although the US and some other countries experienced quite high inflows of foreign direct investment (FDI) in 2023-2024, the overall situation for cross-country FDI has been unfavorable in recent years. Global FDI indicators reflect the negative processes in this area (Tables 7 and 8). In 2023, FDI flows declined (by 7% year-on-year), totaling only about \$1.4 trillion. In 2022, FDI flows reached \$1.5 trillion (taking into account the recent upward revision of the 2022 data by international organizations).

Table 7. Volume of foreign direct investment flows in the world, trillion USD*.

2007	2016	2017	2018	2019	2020	2021	2022	2023	2024 (estimate)	2025 (forecast)
2,1	1,9	1,7	1,2	1,6	0,9	1,8	1,5	1,4	1,5	1,5

* The volume of flows, according to OECD statistics, is calculated as the arithmetic average of FDI inflows and outflows for the respective years. Compiled and calculated according to: FDI in Figures (for the respective years) <https://www.oecd.org/en/publications.html>; OECD Data Explorer <https://www.oecd.org/en/data/datasets/oecd-DE.html>.

Along with such an important factor as geopolitical tensions, FDI flows in recent years have been negatively affected by sanctions and anti-sanctions, economic fragmentation, the breakdown of international value chains, high levels of uncertainty in global financial markets, the effects of the COVID-19 pandemic and other factors. All of these have had a negative impact on transnational corporations' decisions to invest abroad, despite the high profits generated by FDI. In the new environment, these profits, as assessed by potential investors, may be associated with high risks, leveling out the possible returns.

The rise in central bank rates in many countries in 2022-2023 was also a factor in the fall in global FDI in 2022-2023. The decline in FDI flows after a recovery in 2021, following the elimination of the effects of the COVID-19 pandemic in the world economy (Tables 7 and 8).

FDI flows in the world at the current stage remain significantly below the 2007 level (\$2.1 trillion) and are likely to remain below this level in the foreseeable future. FDI flows in relative terms (as a % of world GDP) have remained in recent years about 2-2.5 times lower than the corresponding figure for 2007 (Table 8).

In 2023, the decline in FDI flows covered about 2/3 of all countries in the world, with China experiencing record low FDI inflows, which was not only influenced by sanctions and geopolitical risks, but also by high interest rates in other countries. According to international organizations, international project finance and cross-border mergers and acquisitions experienced particularly severe damage from high interest rates in 2022-2023.

Table 8. Volume of foreign direct investment flows to GDP in the world, %.

2007	2016	2017	2018	2019	2020	2021	2022	2023	2024 (estimate)	2025 (forecast)
3,5	2,5	2,1	1,5	1,8	1,0	1,9	1,5	1,3	1,4	1,4

Compiled and calculated according to: FDI in Figures (for the respective years) <https://www.oecd.org/en/publications.html>; OECD Data Explorer <https://www.oecd.org/en/data/datasets/oecd-DE.html/>.

In the first half of 2024, the FDI situation in China became even more complicated (due to high geopolitical risks, sanctions pressure and contradictory Chinese economic policies). In particular, the repatriation of profits and the reimbursement by Chinese enterprises operating in the country (through FDI channels) of financial resources received from abroad contributed to the undesirable FDI outflow.

Back in August 2023, the State Council of the People's Republic of China, concerned about the negative trends in FDI, published a new concept for attracting foreign investment, including the prioritization of the creation, development and implementation of new technologies. However, in the second half of 2023, FDI inflows to China remained at record low levels.

In 2024, China officially announced the continuation of the foreign investment attraction policy formulated in the concept adopted in 2023. At the same time, in recent years, there have been frequent calls in China to change economic priorities in the direction of increasing the importance of domestic demand and even to shift from participation in global chains to national value chains. In the context of the new FDI attraction policy, all this looks rather contradictory and may discourage potential foreign investors.

In the USA, the FDI inflow in the first half of 2024 was higher than in the corresponding period of the previous year, as there was reinvestment of profits, and an inflow of financial resources through intra-company channels within transnational corporations was observed. The victory of Donald Trump in the elections allows us to assume the continuation of the policy of active attraction of foreign financial resources to the USA (through various channels). The examples of China and the USA thus show that in 2024 the trends of the previous years remain and even intensify.

In 2024-2025, FDI will continue to be negatively affected by geopolitical tensions, economic fragmentation, sanctions and anti-sanctions, instability and unpredictability of processes in the global economy, as well as other negative factors.

Many central banks have moved to lower rates in 2024, which in some cases may help to improve the situation for international FDI. The fact is that high central bank rates are increasingly seen as an obstacle to growth in both domestic economic performance and international investment.

Some decrease in the stimulating effects of digital technologies and infrastructure projects on international investment processes is beginning to be compensated for by the increasing role of projects in the field of ecology and new energy sources. The role of the manufacturing industry, in

particular sectors with a traditionally high role of global value chains (electronics, automotive and equipment manufacturing), is also increasing.

At the same time, there are still hopes for the successful resolution of geopolitical conflicts and, consequently, for the reduction of geopolitical tension in the short and medium term, for an increase in the level of predictability of international processes.

Due to these and other factors, international FDI flows may stabilize in the foreseeable future, and the possibility of a slight increase cannot be ruled out.

ECOLOGY

In the forecast perspective, environmental risks will continue to occupy leading positions among the big challenges on the global agenda. According to forecasts for the period up to 2030, there will be a further trend towards their consolidation. In turn, this provides a context for multilateral environmental regulation and diversification of responses to challenges by the global community to ensure the safety of the planet, people, economic sectors, service infrastructure and sustainability of global development in a turbulent global world order. The authors of the latest Global Risks Report (GRR) 2024 come to this conclusion, among others. A feature of this process will be the continued improvement of the system of international environmental regimes, which provides for a combination of global and regional mechanisms, which are based, in turn, on the coordination of national and local actions of their participants to reduce the dangerous consequences of environmental risks and societal vulnerability. So far, however, the progress has been relatively slow, and the practical results, despite the external attractiveness of many of the proposed international strategies, have not yet been impressive enough.

The ranking of the world's environmental challenges indicates that the impacts of global climate change and the implementation of international policies and measures to limit greenhouse gas (GHG) emissions, coupled with measures to reduce damage and losses from climate change and natural disasters in both developed and developing countries, will continue to be among the top priorities in the near term. The latest international statistics showing the actual state of affairs in this area are worrying. In 2023, some 185 million people worldwide were affected by the negative impacts of extreme natural disasters. Global economic damage increased to \$380 billion and the number of deaths rose to 95,000, reaching the highest level in the period of regular monitoring since 2010. The previous year was the most expensive in the 21st century in terms of the global cost of addressing their devastating impacts, and the negative effects of increasing climate variability are expected to increase further in the future. Climate risks are now consistently ranked among the top five major global socio-economic and geopolitical risks to the world's sustainable development.

More and more often, the current system of responses of the global community to the deepening challenges of climate change is being characterized as “climate action failures”. This applies both to preserving the global climate by limiting emissions (mitigation) and adapting to the consequences of its changes (adaptation). According to the UNEP report published on the eve of COP29²⁰ (Emission Gap Report, 2024), global GHG emissions increased by 1.3% in 2023 compared to the previous year (the share of the G20 group increased to 77%). If more stringent measures for low-carbon transition are not implemented, the previously adopted global targets for limiting climate warming (to 1.5-2.0°C)²¹ under the Paris Agreement will not be met by the end of the XXI century, and warming may reach 2.6-3.1°C

Under these conditions, the world community at various levels and among most groups of actors is consolidating approaches to the need for diversification, concretization and coordination in the implementation of response actions. In recent years, a number of new trends and peculiarities in the

²⁰ COP — Conference of the Parties to the UNFCCC.

²¹ To limit global warming by the end of the 21st century, it is necessary to reduce global GHG emissions by 42% by 2030 and by 57% by 2035.

development of the international climate regulation system have been observed, which will continue in the forecast perspective.

First, certain structural changes are taking place in this system. Until recently, the main focus of climate policies and measures has been on achieving a low-carbon transition by reducing GHG emissions, while the second equal segment of climate regulation – societal adaptation to the impacts of climate change and measures to reduce damage – has received relatively modest attention. There was an imbalance in the structure of global climate finance: 2/3 of resources were allocated for emission reductions and the rest for adaptation. Against the backdrop of increasing climate variability and damage from natural disasters, combined with failures in meeting the goals of limiting global warming, there is an increase in the actions of the world community within the adaptation track of climate regulation, including by improving the provisions and norms of the current multilateral climate regime. In the future, results are expected in overcoming this imbalance.

Second, dynamic transformations are taking place in the climate multilateral interaction between the countries of the Global North and the Global South. Innovations in its architecture are based on the recently reached agreements in the course of rather controversial 30-year North-South negotiations within the framework of the international convention of the UN FCCC. The main differences in their approaches primarily relate to the responsibility for the consequences of GHG emissions of developed countries and their compensation for damages from climate-related natural disasters in the countries of the Global South. Their negotiations culminated in the 2022 decision to institutionalize a mechanism for international assistance for adaptation in least developed countries particularly vulnerable to adverse climate impacts through the establishment of a multilateral climate Loss and Damage Fund for the most vulnerable countries. In future, the relatively new South-South dimension of climate aid and the growth of financial flows from developing to developing countries, including from China, the United Arab Emirates, Saudi Arabia, Singapore and the Republic of Korea, will be strengthened. Since the latter are not Annex I countries of the UN FCCC, which qualify as climate donors with corresponding national commitments, their contributions are mainly formed through multilateral development banks, amounting in recent years to slightly less than half of the funds received by recipient countries through this channel.

This was the main result of consistent pressure from developing states (primarily the G77 and the Alliance of Small Island States) on the West's application of the principles of climate responsibility and compensation for damages. However, in the end, as a result of maneuvering in the negotiation process, developed countries were able to identify the main track for future cooperative action - the provision of multilateral assistance to reduce climate vulnerability, damage and adaptation system development, including the combination of its financial, technological and scientific and practical components. In the absence of consensus, the provisions on liability and compensation for damages were not concretized in the form of mandatory provisions and norms of the international climate regime, but were limited to the formulation of general approaches to the need to reduce the vulnerability of countries and regions affected by climate disasters. The main argument of potential donors was based on the insufficient elaboration of existing methodologies for economic assessment of climate damage and its main indicators, as well as on the need for further interdisciplinary development, which will be continued in the forecasting perspective.

Third, new mechanisms and instruments of financial and technological assistance are being formed within the international climate regime to reduce the climate vulnerability of individual countries and regions. The breakthrough decision to establish the Fund was made in 2022 at COP27 in the UAE. In the near term, the fairly fast-paced operationalization of the Fund will continue, including such key areas as: 1) governance system²²; 2) recipients; 3) donors and funding sources; 4) indicators and damage assessment; 5) reporting, monitoring and verification norms; 6) the Fund's role in the international climate finance system.

According to the 2024 OECD assessment report “Climate Finance Provided and Mobilized by Developed Countries 2013-2022”, ODA (Official Development Assistance) mechanisms have so far been based mainly on government grants (70% of total ODA) and concessional loans (28%) to the most vulnerable countries of the Global South. These will now increasingly be combined with assistance from diverse sources, private foundations and non-governmental organizations, whose network is rapidly expanding. The use of attractive aid instruments, including facilitating and accelerating potential recipients' access to finance and technology in emergencies, is becoming a new feature of the design of the multilateral climate adaptation regime under the Fund. In these cases, the emphasis is on rapid delivery of aid so that it does not arrive late to the disaster site. The fast track rapid disbursement instruments proposed for this purpose are innovative. Options for financial products such as financial guarantees, direct budget financing, politically motivated financing, equity participation, insurance, risk-sharing are discussed. All are seen as complementary to national risk mitigation measures and instruments.

Provision of assistance by the Fund and related institutions (including the specialized Santiago Network and the Warsaw International Loss and Damage Mechanism – WIM) will be carried out through a combination of financial, technological assistance and support for the development of adaptive potential. In our view, it is reasonable to choose an integrated approach to international climate assistance, as adaptation practice shows that a focus solely on finance cannot provide a long-term solution to climate vulnerability on the ground. In the forecast period, the institutional aspects of such a strategy are expected to be further detailed: COP29, in particular, discussed the future contours of the scientific, technical and practical role of international institutions in assessing and mobilizing multilateral capacities to address climate vulnerability. Work will continue on the aggregation of scientific and technical results achieved under WIM and, in particular, in the synthesis of global knowledge on climate damage, on the selection of adaptation indicators, expected to be completed in 2026. The mechanisms of the international Santiago Network, which works to improve the provision of scientific and technical assistance to developing countries, are planned to be further developed.

Criteria for the selection of possible recipients of assistance under the Fund are currently under discussion. The main criterion is to support least developed countries to reduce their vulnerability, develop local capacity to rehabilitate their territories, and develop adaptation and risk reduction strategies and plans. Consideration of indicators of climate vulnerability in combination with local socio-economic indicators and adaptive capacity of recipients is the basis for their inclusion in assistance programs. Among the projects considered as a promising area for grants are those for

²² The Board of the Fund has 26 members, including 12 from developed and 14 from developing countries (3 each from Asia and the Pacific, Africa, Latin America and the Caribbean; 2 each from small island States and least developed countries; 1 from developing countries not belonging to regional groups); decisions are taken by consensus.

rapid local climate databases formation and provision of climate services to end-users, support for mobility and resettlement of residents affected by devastating disasters, among others. Among the institutional schemes proposed there are options for the establishment of a national body in the recipient country responsible for managing the allocated funds and controlling their use in accordance with the approved projects. The successful resolution of all these issues will determine the results of the operationalization of the Fund's work. The key question of mobilizing its financial resources is still open; some estimates suggest that the Fund's start-up budget may be quite modest compared to the recently announced and ever-increasing climate needs of developing countries. Thus, according to some international estimates, the least developed countries are currently underfunded for adaptation, with mobilized climate resources 8 to 10 times lower than their needs.

In this regard, the issue of increasing the annual level of multilateral funding was among the key issues at COP29: the agenda included the adoption of a “New Collective Quantified Goal” (NCQG) for international climate finance to replace the previously agreed annual level of \$100 billion for the period up to 2025. However, the practice of recent years has shown that fulfilling the promise of international mobilization of climate finance to this extent has faced a number of serious challenges, including shortfalls in attracting planned resources and delays in disbursement. The discussion of this issue at the climate summit up to the last day of its work was accompanied by contradictions between participants and separate groups of states: the dynamics in the approaches of many countries of the Global South were characterized by a serious “raising of the stakes”. At COP29, for example, some groups of developing countries proposed raising the target for annual multilateral mobilization of climate finance to \$1.3 trillion for the period to 2030.²³ In the final version, COP29 approved the NCQG at an annual level of \$300 billion by 2035, to be raised from public and private sources mainly from developed countries; voluntary participation in international development assistance through South-South cooperation is also encouraged. The goal of further pooling cooperative efforts to find ways to increase climate aid to developing countries from various sources to \$1.3 trillion by the middle of the next decade was noted.²⁴

Thus, the set of issues on the agenda of COP29, held on November 11-22, 2024 in Baku, reflected the above-mentioned features and trends in the development and implementation of the international climate regime of the UN FCCC. Among the main ones were: 1) mobilization of multilateral climate finance and approval of the New Collective Quantitative Objective; 2) further operationalization of the work of the multilateral Loss and Damage Fund, including discussion of criteria for selecting aid recipients; 3) discussion of global goals to limit climate warming, measures to reduce GHG emissions and national voluntary contributions of participants in the next phase of climate action, starting from 2025; use of market-based instruments to achieve them (Articles 6.2, 6.4 of the Paris Agreement) as well as global energy transition issues.

In the forecast perspective, the strengthening of interaction between the global and regional format of actions of the world community in nature protection and reduction of environmental risks of sustainable development will be observed. The European Union continues to implement extremely dynamic and consistent policies and measures in this area. Over the last few years, the EU has been

²³ Among them: G77 & China, Independent Alliance of Latin America and the Caribbean (AILAC), Like-Minded Developing Countries (LMDC), Least Developed Countries (LDC).

²⁴ UNFCCC/COP29. Decision CMA.6. Matters related to finance. New collective quantified goal on climate finance. 2024. 23.11.

doing its utmost to implement the measures under the Paris Agreement, as well as the previously planned actions to implement the so-called Green Deal. Specific responses are being detailed step by step and the focus on the results of their implementation is strengthening.

The main share of existing acts and agreements is aimed at achieving emission reduction targets through the use of an increasingly wide range of mechanisms and instruments. Firstly, we can speak about measures of various technological types, including the production of sustainable hydrogen as an alternative energy source not related to the use of fossil resources (in terms of regulation of Directive (EU) 2024/1788 of the European Parliament and of the Council of June 13, 2024 on common rules for the internal markets for renewable gas, natural gas and hydrogen²⁵). Among the new directions related to the regulation of the efficiency of consumption of products and services is Directive (EU) 2024/1799 of the European Parliament and of the Council of June 13, 2024 on common rules facilitating the repair of goods²⁶, which provides rules to promote smarter consumption by extending the repair and reuse of goods both within and beyond the scope of the legal guarantee. Thus, it can be concluded that the reform of legislation covers different levels, both high-tech production related to energy and the domestic level of exploitation of consumer goods by increasing their reuse to solve accumulated environmental problems.

Second, environmental regulation will focus on administrative control measures. It is believed that this can be greatly facilitated by the establishment of a carbon dioxide emissions adjustment mechanism, the so-called CBAM²⁷ mechanism, the legal regulation for which was established in 2023; improvements to this system will continue. Actions on benchmarking of extraction, processing and diversification of imports, better known as CRMA²⁸, are becoming additional measures. Thus, currently, clear deadlines have been adopted for permitting procedures for EU extractive projects, a procedure for recognizing projects as strategic, as well as requirements for national exploration plans and ensuring access to critical and strategic raw materials. Another example is the draft Regulation on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities, which aims to create a system of rating agencies and establish EU control over them.²⁹

A third area of EU action, including those with a long-term perspective, is economic stimulus measures, in particular the issuance of new generation green bonds known as NextGenerationEU (NGEU), the last of which was organized in 2024 for more than €65 billion, making the EU the largest issuer of green bonds in the world.

²⁵ Directive (EU) 2024/1788 of the European Parliament and of the Council of 13 June 2024 on common rules for the internal markets for renewable gas, natural gas and hydrogen, amending Directive (EU) 2023/1791 and repealing Directive 2009/73/EC // OJ L, 2024/1788. 2024. 15.07.

²⁶ Directive (EU) 2024/1799 of the European Parliament and of the Council of 13 June 2024 on common rules promoting the repair of goods and amending Regulation (EU) 2017/2394 and Directives (EU) 2019/771 and (EU) 2020/1828 // OJ L, 2024/1799. 2024. 10.07.

²⁷ Regulation (EU) 2023/956 of the European Parliament and of the Council of 10 May 2023 establishing a carbon border adjustment mechanism // OJ L 130. 2023. 16.05. P. 52–104.

²⁸ Regulation (EU) 2024/1252 of the European Parliament and of the Council of 11 April 2024 establishing a framework for ensuring a secure and sustainable supply of critical raw materials and amending Regulations (EU) No 168/2013, (EU) 2018/858, (EU) 2018/1724 and (EU) 2019/1020 // OJ L, 2024/1252. 2024. 03.05.

²⁹ Proposal for a Regulation of the European Parliament and of the Council on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities // COM/2023/314 final.

Based on the above, we can conclude that in the future the EU will continue large-scale activities to stimulate all sectors, to establish administrative and technological mechanisms to achieve sustainable development targets. The above-mentioned measures, although often criticized for bureaucracy, formalism, and in some cases, such as, for example, with regard to the creation of green (sustainable) hydrogen – for the limited technical means at the current stage to achieve the stated targets, are nevertheless a vector of coordinated policy on environmental protection and accumulation of the necessary practical experience. It should also be noted that in the near future they will be continued with the consideration of the update of data and economic indicators of the EU member states.

Green finance. As economic and geopolitical risks persisted in 2024, green and sustainable finance in general continued to either show low growth rates, as in 2023, or stagnate and even decline, depending on the segment of the financial market. Nevertheless, the global financial market remains a significant source of fundraising for the implementation of green, including climate, projects.

According to the Climate Bond Initiative (CBI), at the end of the first half of 2024, total issuance of all sustainable bonds, including green, social and resilient bonds, showed a 7% year-on-year growth to \$554 billion, including \$385 billion of green bonds³⁰. The accumulated volume of issues as of the same date amounted to \$5.1 trillion and \$3.2 trillion, respectively. At the same time, the share of sustainable bonds in the total volume of the global debt market in the first half of 2024 decreased year-on-year from 5.3% to 4.2%. In addition to geopolitical tensions, factors negative for the market include rising interest rates, as well as stricter disclosure requirements for classifying certain investments as sustainable, including green ones.

In the structure of sustainable bonds, many of the trends of 2023 were maintained. Green bonds remain the predominant segment – 70%, and their share even increased. The EU was the leader in terms of all issuances in the first half of 2024, with a 53% share and 62% for green bonds. The euro remains the dominant transaction currency. A notable fact of 2024 was the growth of activity in the market of sustainable bonds of African countries. Seven issuers under the aegis of the African Development Bank placed bonds in several currencies: Australian and American dollar, euro, ZAR (South African rand). UNCTAD assesses that developing countries are becoming increasingly active in sustainable finance. They accounted for more than 60% of the new regulations adopted in 2023. In particular, 6 major developing countries (Argentina, Brazil, China, Mexico, Turkey, UAE) and a number of ASEAN members have developed national strategies or frameworks for sustainable finance in general, as well as for specific sectors: bond issuance, bank lending, insurance. However, according to UNCTAD, these countries still lack the human resources and knowledge, as well as developed financial infrastructure, to achieve their goals³¹.

In contrast to 2023, the US, together with Germany, became the country leaders in terms of green issues. In the sectoral structure of green bond issuers, the largest contribution was made by non-financial companies. A further increase in the importance of transition bonds should be noted. The CBI, in order to support the greening of so-called brown industries, has developed tools, criteria and frameworks to help these industries move towards carbon neutrality. By monitoring two of the most

³⁰ Hereinafter, statistics on sustainable bonds are given according to: Sustainable Debt Market. H1 2024, CBI. 2024. August.

³¹ UNCTAD World Investment Report, 2024. Chapter III. Sustainable Finance Trends. P. 105.

important sectors: steel and cement companies that have been able to become issuers in the green bond market, the CBI was able to draw encouraging conclusions. Firstly, as the CBI report notes, there has been a significant increase in green issuance by these companies compared to 2023, and secondly, 57% of the companies inspected have active plans to transition to a low-carbon economy. In the steel sector, companies from Pacific Asia are the leaders: China (64% of all emissions), Republic of Korea (32%). In the cement sector, the distribution by country is more even: Asia – 21%, Europe – 3.9%, Latin America – 44.9%³².

In contrast to the sustainable bond market, the credit market saw a significant reduction in new loans in H1 2024 compared to H1 2023. According to Environment Finance³³, this affected primarily so-called linked green loans, for which KPIs are assessed as a result of monitoring the intended use of these loans (a reduction by almost 34%). One of the reasons is the introduction at the national and international levels of more stringent criteria for assessing projects as green and generally sustainable, increased requirements for transparency of transactions and reporting, which significantly increases costs for borrowers and lenders and in some cases outweighs the benefits of attracting clients to green lending. At the same time, according to experts, the emergence of clearer guidelines, such as, for example, Sustainable Linked Loan Bonds Guidelines, prepared by the International Loan Market Association together with the International Securities Markets Association (ISMA), will contribute to the recovery and consolidation of the market. A distinctive feature of the green credit market, as well as the debt market, is the growing interest in transitional finance. With the active participation of the Asia and Pacific Loan Association in the summer of 2024, a draft of the Transition Loan Principles was prepared, the final version of which is expected to be completed by the end of 2024. The recipients of such loans are mainly large companies that can afford the rising costs of providing the necessary information. In terms of industries, these include aviation, logistics, including maritime transportation, energy, utilities, and blue loans.

Another area of green finance that is facing challenges in 2024 is investment in green assets. UNCTAD estimates³⁴ that the sustainable investment market continues to grow, albeit at a slower pace, but new investments by institutional investors are declining. However, despite the adoption of new regulations at both national and international levels, greenwashing remains a major challenge for green and sustainable finance in general. In this situation, it seems necessary to further develop regulatory mechanisms, including mandatory reporting on sustainable investments, as well as replacing sustainability assessments by the companies themselves with external auditing and rating by independent agencies. It is obvious that decision-making policy on the regulation of sustainable finance markets should be more focused on economic results. And here, according to many experts, new financial technologies, primarily the use of artificial intelligence, will play an increasing role in regulation and supervision.

The reviewed trends indicate that a more balanced and economically rational approach on the part of the main participants (stakeholders) is being formed in the sustainable finance market, and the market is being cleared of speculative frenzy.

³² UNCTAD World Investment Report, 2024. Chapter III. Sustainable Finance Trends. P. 8.

³³ Environmental Finance. Sustainable Loans Insight 2024.

³⁴ UNCTAD World Investment Report, 2024. Chapter III. Sustainable Finance Trends.

FORECAST OF CONDITIONS ON THE MAIN MARKETS OF RUSSIAN EXPORTS

Food

In 2024, the volatility of development of global production and trade in agricultural raw materials and processed products remained (in some cases even aggravated). The impact of a number of negative factors operating in 2022-2023 increased: natural and biological (more frequent extreme climatic events and outbreaks of diseases of crops and animals), economic (deterioration of the situation in the economy, including in the agro-industrial complex, of a number of countries, disruption of the transportation and logistics system of the world agro-food trade), continuation and sometimes escalation of military and political confrontations (in Ukraine, Africa, the Middle East)³⁵.

The combined negative effects of these factors have led to unsatisfactory levels and dynamics of global food security. At the beginning of 2024, the average number of hungry people in the world amounted to 733 million (9.1% of the world population), an increase of 26% against pre-COVID 2019 and 29% against 2015, when the UN declared the goal of achieving zero hunger by 2030. The global hungry population was dominated by regions in the Global South: Asia (about 52%), Africa (more than 40%), Latin America and the Caribbean (almost 6%). In terms of the proportion of hungry people in the population, Africa was the leader (more than 20%), outpacing both the global average (2.2 times) and other regions of the world: Asia – 2.5 times, Latin America and the Caribbean – 3.3 times, etc. Moreover, the prevalence of malnutrition in Africa has been increasing in recent years, in contrast to its practical invariability in Asia and its decline in Latin America and the Caribbean³⁶. In mid-2024, Africa also accounted for more than 70% of the nearly 180 million people in hunger hotspots – 21 countries with catastrophic or near catastrophic levels of food insecurity.

In 2025, the current trends will continue and possibly intensify. By 2030, if they continue, according to UN FAO forecasts, the total number of hungry people in the world could reach 582 million (12 million more than in 2015). This scenario is particularly likely for low- and middle-income countries in the Global South, where climate variability, weather extremes and conflicts are the main causes of food insecurity in 75% of countries. For these reasons, for example, by 2030 the share of Africa in the number of hungry people in the world may increase by almost 1/3 – up to 53%. Negative trends directly (climatic extremes, epiphytotics and epizootics) or indirectly (rising energy costs, disruptions in logistics, including due to regional conflicts) affecting global food production are aggravated by the noticeable lag in achieving the UN goal of halving the scale of losses and spoilage of food products by 2030.

In the natural-climatic aspect, the negative impact of global warming on world production and trade in agrifood products is increasing. It is estimated that in 2024 the average global temperature will exceed the pre-industrial level for the first time by 1.5°. The negative effects of the successive El Niño and La Niña megaclimate phenomena are intensifying. For some of the world's major food

³⁵ Russia and the World: 2024. Economy and Foreign Policy. Annual Forecast / Eds.: Givi I. Machavariani, Irina Y. Kobrinskaya. – Moscow, IMEMO RAS, 2023. P. 44.

³⁶ FAO, IFAD, UNICEF, WFP and WHO, 2024. Executive Summary. The State of Food Security and Nutrition in the World – 2024. Financing the elimination of hunger, food insecurity and malnutrition in all its forms. – Rome, FAO. P. 12–13.

producing and consuming regions, they actually turn weather extremes into near-normal situations, causing hurricanes and storms and alternating between severe droughts and floods. Over 60 million people in 24 countries, primarily in Asia, eastern and southern parts of Africa, Latin America and the Caribbean, were affected during the El Niño period from June 2023 to May 2024. In January-April 2024 alone, agriculture was devastated by El Niño-related severe drought in the southern and flooding due to heavy rains in the eastern part of Africa. Flooding in southern Brazil hit rice production in the region, which accounts for about 50% of the country's rice harvest, while flash floods hit the agricultural sector in the Gulf States, southeastern Iran, Afghanistan and Pakistan. In the United States and Western Europe, severe droughts in the summer of 2024 caused serious damage to agricultural production (in southern Italy, grain and olive production was halved). Drought-induced shallowing of the main navigable rivers (Mississippi, Danube and Rhine basins) caused difficulties with river grain transportation, while the decline in water levels in the Panama Canal until almost May 2024 hampered transit through it, which provides about 9% of the world's maritime grain transportation. In the European Union, a key global exporter of grain and livestock products due to unfavorable weather conditions 2024/25 agricultural year is expected to be the lowest for the last 10 years in grain production. The harvest of oilseeds will decrease by 8% against last year, apples by 10%, milk and pork production will increase by only 0.2%, poultry meat by 0.9%. In Russia, according to the Russian Ministry of Agriculture, the grain shortfall in 2024/25 agricultural year due to natural disasters will amount to 20-22 million tons (13-15%). La Niña, which replaced El Niño in late September, is forecast to last until March 2025, causing weather extremes with dire consequences for food security, especially for some 280 million people in countries already suffering from severe food insecurity. The associated devastating storms have so far hit mainly food secure countries. In September-October 2024, Hurricanes Helen and Milton (ranked among the ten strongest in US history) caused serious damage to 6 southern states. The losses of the agro-industrial complex in Georgia from Helen are estimated at USD 6.6 billion, in Florida from Milton at USD 2.5 billion, and the total damage from each hurricane exceeds USD 50 billion. Extreme storm Boris, which covered Austria, Hungary, Germany, Poland, Romania, Slovakia, Czech Republic and caused record flooding in September 2024, caused considerable damage to agriculture and agrarian infrastructure in Europe. In Poland alone, crops on almost 70 thousand hectares of agricultural land, most of the fodder reserves, etc. were completely destroyed. In September, the storm hit the agricultural sector of Italy and France. In October-November storm Dana, which caused heavy rains and floods in a number of regions of Spain, resulted in heavy human casualties and catastrophic damage to 2/3 of citrus plantations (Spain's share in world exports – 24%), as well as vineyards (Spain's share in world exports – more than 8%) and agrarian infrastructure, the consequences of which will be felt even after 2025. Developed countries still have sufficient financial and investment resources to cover the related losses and restore food production, but such compensation is becoming increasingly burdensome for the budgets of these countries and their alliances, such as the European Union. The US Department of Agriculture alone is already spending more than \$8 billion annually to compensate farmers, and the European Commission plans to use the unused €18 billion from other EU budget lines to compensate for current losses. Developing countries threatened by La Niña in 2024-2025 (Argentina, Brazil, Peru, Ecuador, India, Malaysia, the Philippines, southern and western African countries) have limited resources, which may negatively affect global production of and trade in a number of important agri-food commodities (corn, soybeans, rice, sorghum). This is particularly alarming against the backdrop of concerns that in 2025 the process of disruption of the ocean current system may begin,

with the potential for dramatic climate change with catastrophic consequences for global food production.

Natural negative trends are also exacerbated by the persistence of domestic and international conflicts. According to the Global Peace Index, in 2024, there were 56 conflicts in the world, and they have become “more international” – 92 countries are involved in conflicts beyond their borders. The most conflict-prone regions remained the Middle East and North Africa, as well as Sub-Saharan Africa, where the share of hungry people in the population is already 2.5 times higher than the world's. Conflicts hinder the development of national agro-industrial complexes, undermine the system of delivery and distribution of foreign food aid to countries in need, and impede international trade. For example, by the beginning of 2024, the escalation of the armed conflict in Sudan led to a 46% drop in grain harvest and an increase in the share of hungry people to 37% of the population. The restriction of navigation through the Suez Canal and the Red Sea caused by the Yemeni Houthis in 2024 sharply reduced the transit through this route, which provided 14% of the world's grain and 20% of the world's mineral fertilizer shipments, replacing it with a longer and more expensive route around Africa. So far, the geopolitical situation seems uncertain and it is difficult to expect the negative impact of conflicts on global food production and logistics to weaken in 2025.

In developed countries (primarily in the EU), food production and consumption volumes are beginning to be negatively affected by its greening, including measures to take some agricultural land out of circulation to preserve biodiversity, to limit the use of pesticides, organic and mineral nitrogen fertilizers, to tighten the rules of animal husbandry, and to replace animal proteins with vegetable proteins in the diet of the population, etc.

In 2024, most national and global food systems remained insufficiently resilient and food remained relatively expensive for consumers, especially in poor countries. The World Bank estimates that food price increases exceeded 5% in about 76% of low-income countries, 51% of lower-middle-income countries and 38% of upper-middle-income countries. In almost 60% of the world's countries, food inflation outpaced overall inflation in real terms. These trends are quite stable and are likely to continue into 2025.

In 2024/25 agricultural year, multidirectional trends are observed in the main sectors of the world agri-food economy³⁷. With a decrease (wheat, corn, sugar) or moderate growth (rice, oilseeds) in the production of basic plant products, the production of meat, dairy and fish products is expected to increase. Against the background of increased sensitivity of global food production to weather and geopolitical factors and the resumption of the upward trend of world food prices, this may have a mixed impact on the balance of global markets and food security. According to UN FAO estimates, in crop production, with a slight decrease (by 0.4%) against 2022/23 agricultural year, the world cereal harvest is expected to be the second largest in the last 10 years. The decline in maize production in Europe, Latin America and Africa will be largely offset by increases in world wheat and rice production. With a slight decline in world trade in wheat and coarse grains, trade in rice is forecast to increase. An increase in the global soybean harvest (primarily in North and Latin America) and a recovery in palm oil production in Southeast Asia are likely to offset the decline in sunflower and rapeseed harvests, boosting total world oilseed production by almost 4%. World

³⁷ FAO. 2024. Food Outlook – Biannual report on global food markets. Food Outlook. 2024. November. – Rome.

sugar production is expected to decline slightly (by 1.1%), primarily due to lower production in Brazil and India. In the livestock sector, a slight increase in global meat production is expected in 2025, with a 2% increase in poultry production in China, the USA, the EU and Brazil offsetting the decline in beef and pork production. A small (about 1%) increase in global milk production is expected, primarily in the EU and India.

The 2024/25 agricultural year is expected to be generally acceptable for the Russian agro-industrial complex. In the crop sector, a significant (although slightly below the average for the last five years) grain harvest is forecast – 130 million tons, including 83 million tons of wheat. With a slight decrease in sunflower harvests, good yields of rice, soybeans and rapeseed are expected, as well as stabilization of sugar and sunflower oil production. In general, Russia is likely to maintain a good position in global production of a number of important crop products: wheat – 4th, barley and rye – 2nd, corn – 12th, sunflower and sunflower oil – 1st, sugar – 8th place. In 2025/26 agricultural year, an increase in grain harvest is possible, although due to unfavorable weather conditions, according to experts' estimates, by the end of 2024, winter crops were in an uncertain condition.

In the world's final stocks of wheat, Russia may take the 5th place; of rye, sunflower and sunflower oil – the 3rd, of sugar – the 11th place.

Table 9. World and Russian production and export of grain, sunflower oil*, mln tons.

	2021/2022	2022/2023	2023/2024	2024/2025
World				
Grain production,	2812,1	2793,4	2847,4	2848,1
incl. wheat	778,3	803,1	787,7	792,2
Grain exports,	481,9	476,9	487,4	485,0
incl. wheat	195,9	200,0	200,4	198,3
Sunflower oil production	19,7	21,5	22,0	21,0
Sunflower oil exports	11,1	13,9	14,8	12,5
Russia				
Grain production,	121,4	157,7	147,0	130,0
incl. wheat	76,1	104,2	92,8	83,0
Grain exports,	38,1	60,0	65,0	56,0
incl. wheat	33,0	44,0	49,0	45,0
Sunflower oil production	5,3	5,9	7,0	6,8
Sunflower oil exports	3,2	3,9	5,2	4,8
Russia's share (%) in the world				
Grain production,	4,3	5,6	5,2	4,6
incl. wheat	9,8	13,0	12,0	10,5
Grain exports,	7,9	12,6	13,8	11,6
incl. wheat	16,8	22,0	25,2	22,7
Sunflower oil production	26,9	27,5	31,8	32,0
Sunflower oil exports	28,8	28,1	35,0	38,0

* According to agricultural years – from July 1 of the current year to June 30 of the following year.

Source: calculated according to UN FAO, US Department of Agriculture, Ministry of Agriculture of the Russian Federation, sectoral organizations-producers of the Russian Federation.

Certain opportunities are also opening up in the livestock sector. Despite some problems, in 2024 meat production in Russia is expected to grow, including beef by 5-6%, pork by 4-5%, and poultry by 2%. In terms of total meat production Russia may take 4th place in the world, including turkey

meat – 2nd place. Russia's position in the niche but profitable world market of mutton is strengthening. In the global production of cheese and butter, Russia will remain among the top five global producers. These trends are likely to continue in 2025 as well.

Table 10. World and Russian meat production and export*, mln tons.

	2022	2023	2024	2025
World				
Meat production,	362,1	368,2	373,4	373,9
incl. poultry meat	143,1	146,0	149,7	148,5
Meat exports,	41,3	40,5	41,9	42,4
incl. poultry meat	16,4	16,2	16,3	16,5
Russia				
Meat production,	11,9	12,6	12,8	13,1
incl. poultry meat	5,3	5,4	5,5	5,6
Meat exports,	0,68	0,70	0,75	0,80
incl. poultry meat	0,36	0,35	0,39	0,43
Russia's share (%) in the world				
Meat production,	3,3	3,4	3,5	3,5
incl. poultry meat	3,8	3,8	3,8	3,8
Meat exports,	1,6	1,7	1,8	1,9
incl. poultry meat	2,2	2,2	2,4	2,6

* Beef, pork and poultry meat (broilers).

Source: calculated according to UN FAO, US Department of Agriculture, Ministry of Agriculture of the Russian Federation, sectoral organizations-producers of the Russian Federation.

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 global agro-food market, ensuring its openness, non-discrimination and predictability, including the removal of restrictions and bans violating WTO rules, especially anti-Russian sanctions of the West. According to FAO estimates, in 2024, global expenditures on imports of agro-food products will increase by 2.5 %, exceeding USD 2 trillion. If current trends persist, this growth is likely to continue in 2025. This is partly due to the upward trend in most global agri-food prices. In November 2024, the total FAO food price index was 5.7% higher, and the price indices of meat, dairy products, vegetable oils – by 5.8-32.2% higher than in November 2023. Only the price indices of grain and sugar decreased.

Moreover, all indices (except for sugar prices) were the highest in the current decade (except for peak COVID prices in 2022)³⁸.

The situation was exacerbated by high transportation and logistics costs and global trade distorting barriers. Global agricultural freight rates for 2024 increased by 10-30% and reached 20-30% of food import costs for least developed countries. As of October 2024, 16 countries were implementing 21 food export bans and 8 countries were implementing 15 food export restrictions. The removal of such limits could have a marked impact on specific commodity and regional markets. For example, in October 2024, the lifting of the export ban on white rice (not basmati) by India (which accounts for 40% of global rice exports) reduced the FAO world rice price index by 5.6%, increasing its availability and allowing countries in Asia and Africa to increase imports.

The effect of politically motivated sanctions, which violate WTO rules, applied by the collective West against Russia starting from 2022, remained negative for the global food economy (especially for import-dependent developing countries). In 2024, Russian companies, which traditionally provided about 20% of food supplies for humanitarian aid under the UN World Food Program, were restricted from bidding for these supplies. In general, due to active adaptation to new circumstances, even in 2024, unfavorable by natural conditions, Russia will approach \$44 billion in terms of the value of agro-food exports and 110 million tons in terms of physical volume, becoming one of the top three exporting countries by this indicator. In 2025, these trends are likely to continue, taking into account the measures of state support aimed at increasing the value of Russia's agro-food exports to \$55 billion by 2030.

With stable and adequate food self-sufficiency (by value agro-food exports in 2024 covers imports by about 115%) Russia in 2025 will maintain or strengthen its leading positions in the world markets of a number of basic products by physical volume. In the world export it can take the 1st place in wheat, the 3rd place in rye, the 4th place in barley, the 6th place in corn, the 2nd place in sunflower and sunflower oil, the 7th place in pork³⁹, the 9th place in poultry meat. In terms of cheese and butter, it may become one of the top ten exporters. Russia's export expansion is mainly focused on friendly countries, including countries in Africa that are particularly in need of food. Russia already provides about 20% of African imports of wheat and barley, about 15% of soybean and sunflower oil, and is increasing supplies of poultry meat. Russian supplies of mineral fertilizers, which already occupy more than 10% of the African market, are of great importance for Africa's food self-sufficiency, with the prospect of doubling them in the next 5 years⁴⁰.

The realization of this potential will largely depend on solving problems with transport and logistics, exchange rates and mutual settlements with foreign partners (primarily within the EAEU and BRICS), as well as increasing the predictability and stability of national customs and other regulation of foreign economic relations.

³⁸ FAO Food Price Index. Higher vegetable oil quotations drive up FAO Food Price Index, but lower cereal and sugar prices temper the rise. 2024. 06.12. URL: <https://www.fao.org/worldfoodsituation/foodpricesindex/en/> (Accessed: 15/12/24).

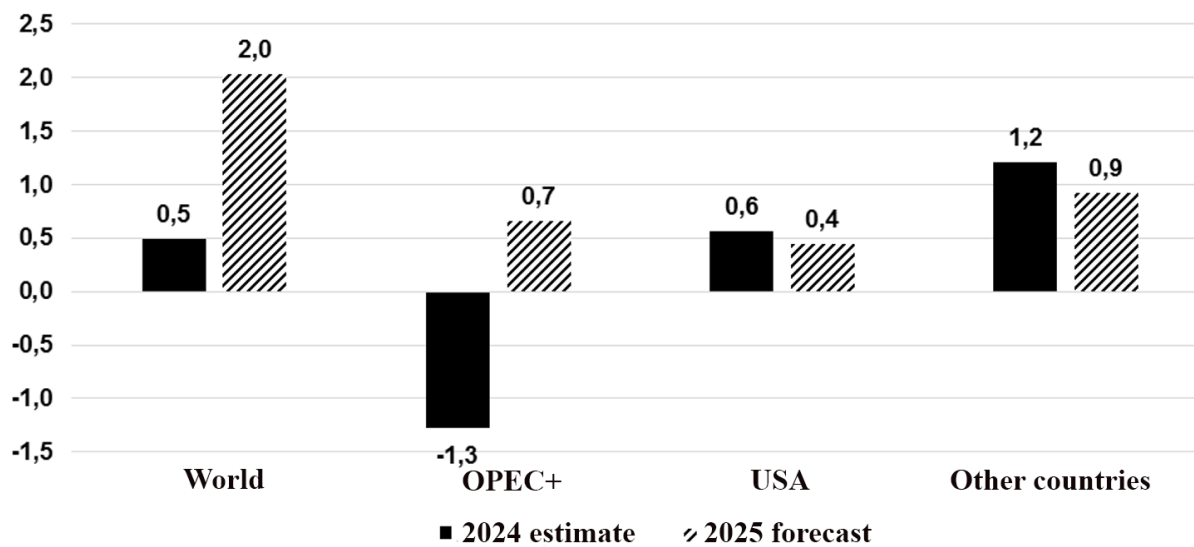
³⁹ Experts estimate that in 2024 exports of pork products will amount to 5% of production, and in the next 6 years may reach 10%.

⁴⁰ *Konstantin V. Bogdanov, Boris E. Frumkin, Irina Y. Kobrinskaya*. A Race for the Global South or a Battle for the World Majority: Russia's Prospects // *Russia in Global Affairs*. 2024. Vol. 22. Issue 5. P. 95. URL: <https://globalaffairs.ru/articles/bolshinstvo-bogdanov-kobrinskaya-frumkin/> (Accessed: 16/12/24).

Oil and gas

Oil. The world oil market continues to be dominated by the US and global US and European oil and gas companies. In 2024, the OPEC+ members had to hold back oil production against the background of its increase in the USA and other countries of the world (Figure 7). The state budgets of key OPEC countries and their OPEC+ partners are critically dependent on oil export revenues, so in the context of sluggish oil demand growth (Figure 8), mainly due to the structural slowdown of the Chinese economy, they have to curb production in order to prevent oil prices from collapsing.

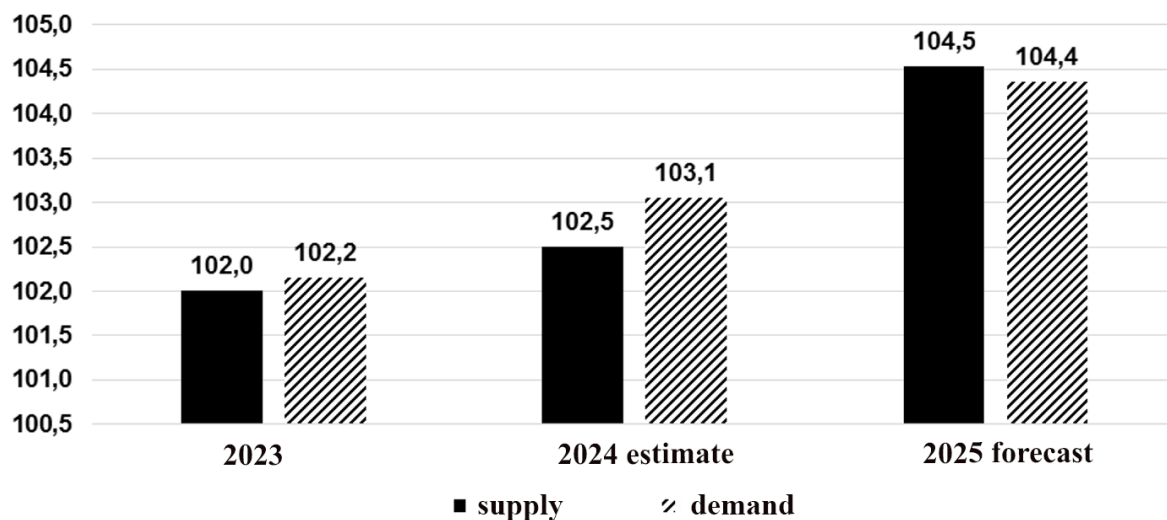
Figure 7. Supply growth in the global oil market in 2024 and 2025, mln barrels per day.



Source: CER IMEMO RAS based on data of the US Department of Energy.

In 2025, stronger growth in global oil demand, in principle, opens opportunities for OPEC+ countries to increase oil production, especially since the increase in oil production in the US and other countries of the world may be less than in 2024. However, this scenario is not guaranteed, including because the new US administration plans to support a significant increase in oil production in the US. Overall, the outlook for oil demand dynamics in the coming years remains highly uncertain. No developing country can replace China as the driver of global oil demand.

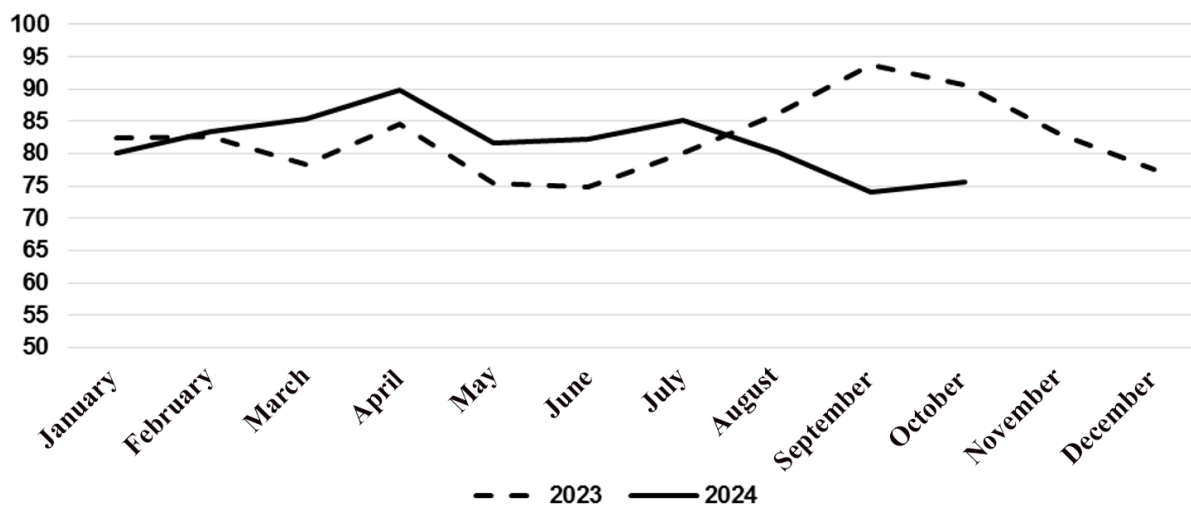
Figure 8. Supply and demand balance in the global oil market in 2024 and 2025, mln barrels per day.



Source: CER IMEMO RAS based on data of the US Department of Energy.

In the absence of exogenous geopolitical shocks, the world oil price in 2025 will remain in the range of \$70-90 per barrel, which is confirmed by the calm dynamics of monthly oil quotations in January-October 2024 (Figure 9).

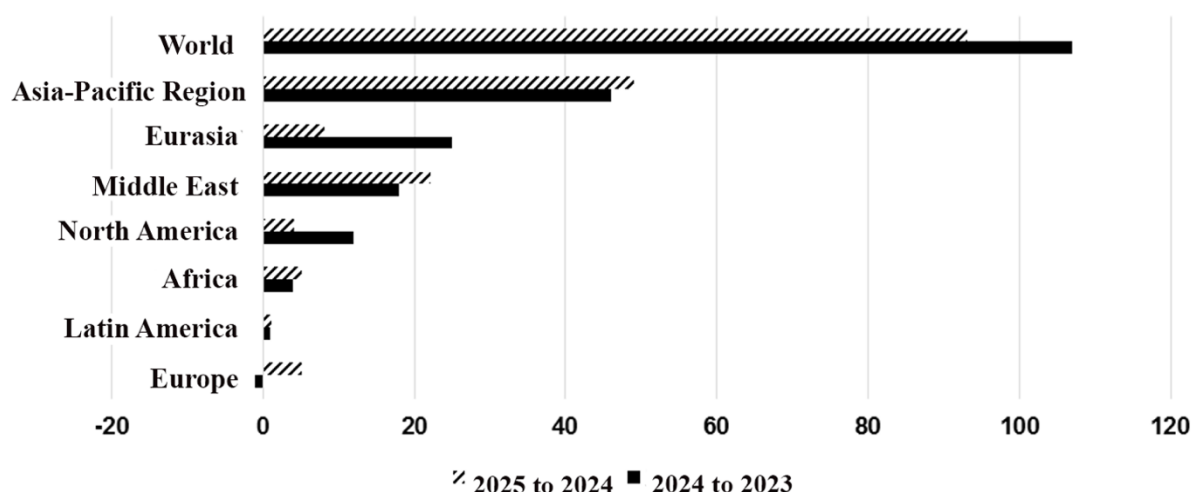
Figure 9. Monthly dynamics of the price of a barrel of Brent oil in 2023 and 2024, USD per barrel.



Source: CER IMEMO RAS based on data of the Energy Information Administration.

Regional natural gas markets – at different price levels. Globally, according to the International Energy Agency (IEA), gas demand growth in 2025 is expected to be lower than in 2024, mainly due to North America and Eurasia (Figure 10). In the Asia-Pacific region, the increase in gas demand will be approximately at the 2024 level. In Europe, demand will increase by 5 billion cubic meters.

Figure 10. Increase/decrease in natural gas demand by world regions, billion cubic meters.

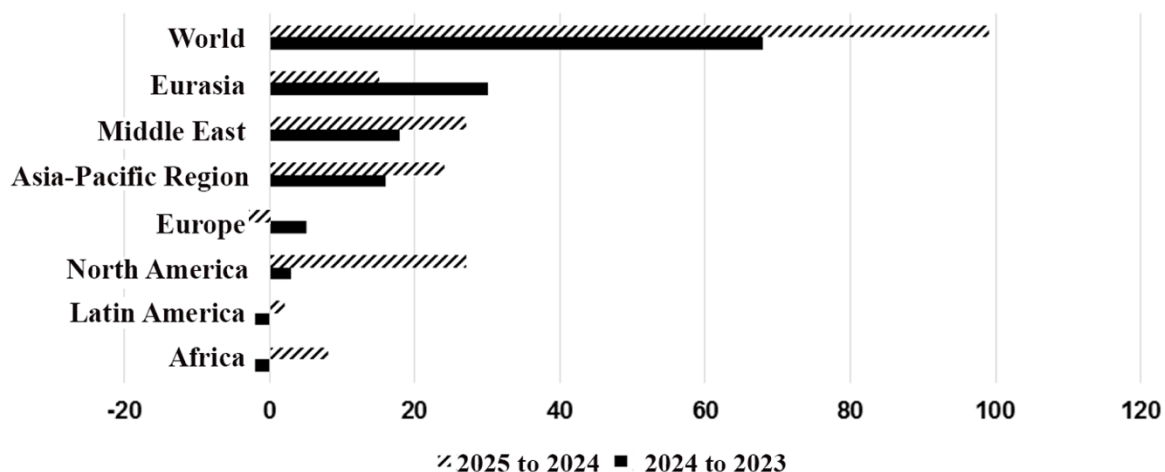


* - 2024 – estimate; 2025 – forecast.

Source: International Energy Agency.

The IEA expects North America and the Middle East to be the main contributors to the growth in natural gas production (Figure 11).

Figure 11. Increase/decrease in natural gas production by world regions, billion cubic meters.

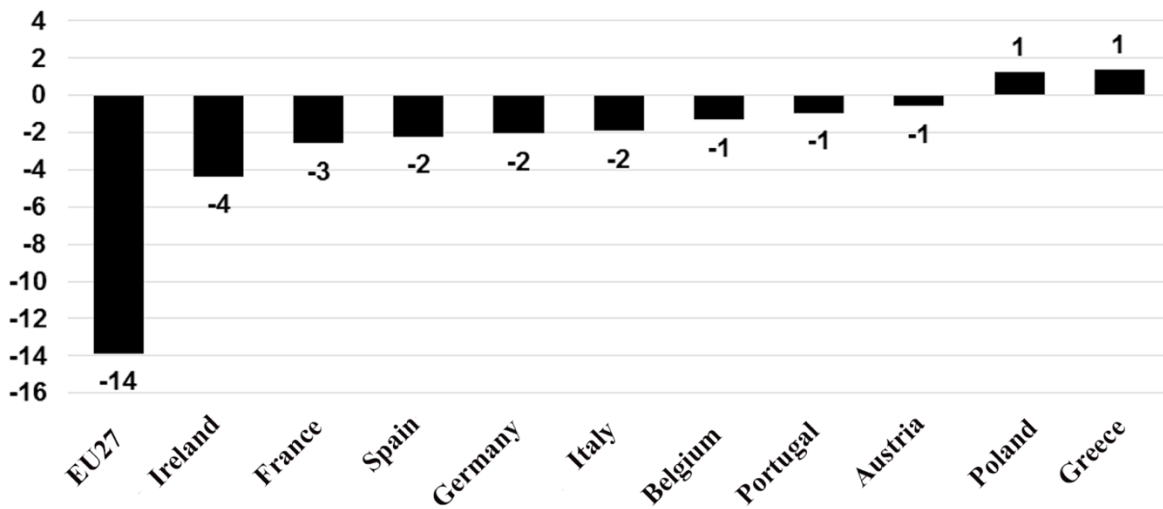


* - 2024 — estimates, 2025 — forecast.

Source: International Energy Agency.

Due to sanctions, the planned growth of LNG production in Russia is shifting to the right on the timeline. The main beneficiaries of the increase in LNG demand will be US companies and Qatar. According to our estimates, gas demand in the EU countries will decrease by 14 bcm in 2024, mainly due to reduced consumption in Ireland, France, Spain, Germany and Italy (Figure 12). Gas demand will grow slightly only in Poland and Greece.

Figure 12. Dynamics of natural gas consumption in the EU in 2024 vs. 2023 level, billion cubic meters.

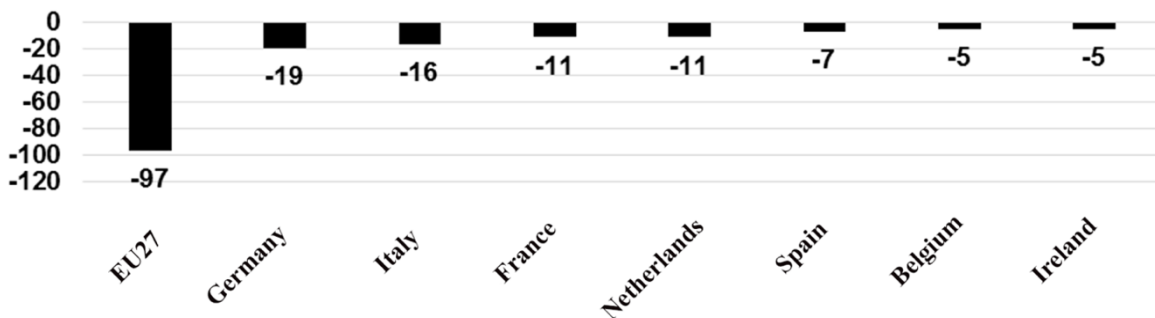


Source: CER IMEMO RAS estimates based on Eurostat data.

Over the period 2021-2024, gas consumption in the European Union decreased by almost 100 billion cubic meters, including 19 billion cubic meters in Germany, 16 billion cubic meters in Italy, 11 billion cubic meters each in France and the Netherlands, and 7 billion cubic meters in Spain (Figure 13). A meaningful recovery of gas demand in Europe is impossible without halting the process of deindustrialization, which is extremely difficult in the current political and economic configuration.

Natural gas prices in Europe will remain high and highly volatile until spring 2025. Low winter temperatures, uncertainty regarding solar and wind generation and political uncertainty regarding the transit of Russian gas through Ukraine to Europe, the contract for which expires on December 31, 2024, as well as the imposition of US sanctions on Gazprombank, through which contracts securing Russian gas exports to Turkey pass, create an ideal environment for European spot market players to drive up gas prices.

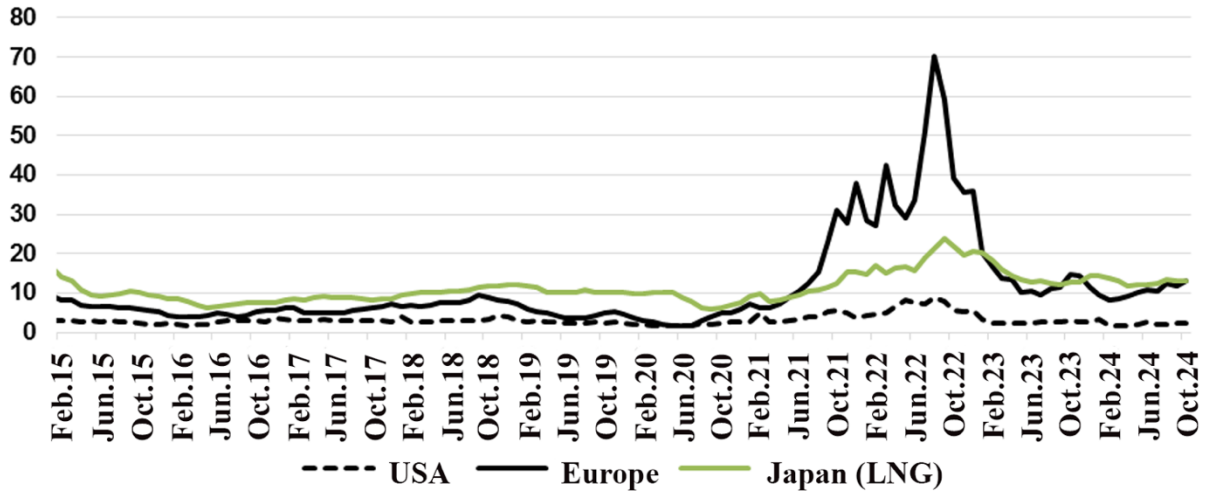
Figure 13. Reduction of natural gas consumption in the EU, 2024 to 2021, billion cubic meters.



Source: CER IMEMO RAS estimates based on Eurostat data.

European gas prices will inevitably push up spot LNG prices in the Asia-Pacific region. Comparatively low gas prices in the US (Figure 14) will remain the most important factor in ensuring the global competitiveness of US producers.

Figure 14. Monthly dynamics of natural gas prices in the USA, Europe and Japan in January 2014 – October 2024, USD per 1 mln BTU.



Source: World Bank.

Metals

Steel

According to the World Steel Association (WSA), last year the main factor in the development of the global steel industry remained overcoming the consequences of the pandemic shock of previous years and attempts to gradually achieve a relative balance of supply and demand in the world market of steel products. The development of these processes was hampered by high inflation and rising interest rates in the US banking sector, the Ukrainian conflict, and a relative slowdown in metallurgical production in China. These moments determined rather moderate growth rates and steel consumption in 2024 (Table 11).

Table 11. Dynamics of global steel production and consumption, mln tons.

	Production			Consumption		
	2023	2024	2025	2023	2024	2025
World	1890	1900	1950–1990	1850	1890	1890–2000
Asia*	1355	1390	1410–1440	1320	1430	1430–1460
China	1080	1110	1120–1170	960	1100	980–1160
India	140	148	150–155	123	128	130–135
Japan	87	90	90–92	70	80	85–88
Rep. of Korea	60	59	58–63	47	50	48–56
Turkey	35	34	36–40	26	26	25–28
Iran	34	35	35–42	28	28	27–30
America**	184	188	190–196	185	194	192–196
USA	80	83	84–86	85	86	85–93
Europe***	195	192	194–198	195	200	204–208
EU****	150	148	148–150	166	175	176–182
CIS	85	84	84–88	42	42	42–45
Russia	75,8	76	75–77	46	48	46–48

* Japan, China, India, Republic of Korea, Turkey, Iran.

** North and Latin America.

*** Without CIS countries.

**** EU and UK.

Source: World Steel Association.

In the last two decades, the increasing pace of industrialization and urbanization, as well as the effective use of price competition, have contributed to the shift of maximum steel production to Asian countries. China is the undisputed leader in metal production and exports, and will obviously retain its position in the distant future. Already in the early 2000s, China's metallurgy reached 1 billion tons of steel production and surpassed half of the world's annual steel production. Currently, China holds the majority of the world's top ten steel companies. The growth was based on the active investment policy of the government: in 2001-2005, more than \$17 billion was allocated to the iron and steel industry. In some years, the annual growth of steel production approached 20%.

However, such rapid growth of one of the basic industries has led to a serious imbalance in the structure of the Chinese economy, which is why the growth rate of China's metallurgical production has fallen markedly in recent years. In the opinion of the country's leadership, the relative slowdown of one of the most dynamic industrial sectors can be seen as a confirmation of the course for more balanced growth and ensuring future development in accordance with the era of the “New Normal” announced back in 2014, in the framework of which a new development model based on the priority of domestic consumer demand and innovation is planned to be formed.

Among today's most important challenges for the Chinese steel industry are the following:

- the risk of steel overproduction and its export growth;
- comparative technological underdevelopment and high energy consumption of many enterprises;
- technological fragmentation of steelmaking facilities and companies;
- suboptimal geography of capacity allocation;
- aggravation of international trade disputes due to increased exports of Chinese steel products.

The main goals of the country's leadership in the field of metallurgy remain to meet the needs of the economy in the development of major industries, including machine building, automobile construction, shipbuilding and the production of household appliances. The emphasis is placed, first, on consolidation of the industry through uniting enterprises into major corporations (without foreign shareholders buying controlling stakes in Chinese enterprises) and, second, on improving the quality characteristics of steel products and their production, as well as increasing the share of high value-added processes.

At the same time, it was possible to avoid the manifestation of crisis phenomena without losing the established trends of dynamic growth of metallurgical production, although at the cost of some restraint of GDP growth rates. At present, the Chinese government intends to maintain “medium-high” rates at the level of 5-6% per year, relying on proven methods. These methods include liberalization of the economy, primarily of the financial sector, stimulation of economic growth by investments, implementation of large investment projects (including the Belt and Road initiative), which provide attraction of foreign financing and purchase of Chinese-made equipment. These problems have to be solved taking into account the difficult socio-economic situation in the country, contradictory trends and divergent interests. For example, due to the recession in Western countries, exports of Chinese goods decreased compared to the previous year. At the same time (and this is perhaps the most important), the crisis in the construction industry failed to be overcome. In the first half of 2024, the volume of housing sales decreased by more than 1/3, and new construction – by 2 times compared to the previous year.

China's steel output will remain an important factor for the global market in the coming months. The leadership has repeatedly stated that it seeks to limit metal output in order not to exceed last year's level. However, as practice shows, so far it has not been possible to do so: the country is experiencing a small increase in production every month. Here an important role is played by

provincial companies, which do not want to reduce profitable metallurgical production, which negatively affects the social situation in the regions.

In the middle of the last decade, a large-scale modernization program was launched in the Chinese steel industry. According to the National Metallurgical Association (CISA), in 2016-2020, the country commissioned an average of about 80 million tons of new steelmaking capacity and closed production lines for about 86-90 million tons annually. Dozens of plants were relocated from old industrial areas to new industrial parks located on the coast or away from major cities. By 2025, enterprises with a total capacity of more than 220 million tons are expected to undergo a similar transformation.

In recent years, China's struggle with high energy costs and environmental pollution has intensified markedly. The main production base of the industry was created in the 2000s, using often morally and physically obsolete equipment and with some disregard for environmental issues. In the last 5 years, 229 metallurgical enterprises, which annually produce 620 million tons of steel, have undergone modernization aimed at reducing emissions.

In late 2020 and early 2021, Chinese steelmakers have changed their priorities. The fight against global warming came first. The industry was tasked to reach the peak of carbon dioxide emissions in 2025, i.e. 5 years earlier than the rest of the economy.

Since mid-2021, a large-scale comprehensive inspection of all operating metallurgical plants has been introduced in the industry to assess their technical condition, possible modernization and liquidation. In addition to simply reducing smelting and encouraging imports of semi-finished products, pig iron and other quality raw materials, metallurgists were proposed to switch from iron ore and coke to scrap metal, and from blast furnaces to electric arc furnaces. This reduced carbon dioxide emissions, and at the same time solved another strategic task – reducing dependence on imports of iron ore from Australia, with which the Chinese government occasionally has serious political disagreements.

Finally, Chinese steelmakers intend to make greater use of renewable energy sources, especially solar and wind power, which China ranks among the world's leading countries in terms of installed capacity. In 2022, the country's first plant to produce reduced iron using hydrogen instead of natural gas became operational.

But Asia is not only China and Japan, the recognized metallurgical leaders of recent decades. For example, although **Turkey** has somewhat reduced production, it has created one of the largest metallurgical hubs in Europe, which is also used by Russian companies.

India is struggling to succeed as a producer, as a consumer and as a trader of steel products. Having generally managed inflation, the economy is now on a healthy growth track, thanks mainly to government spending on infrastructure and renewable energy generation. Sustained growth in private consumption will support demand in the consumer goods market and the auto industry.

In the **US** economy, the strong post-pandemic recovery has been exhausted by the Federal Reserve's sharp increase in interest rates to tackle inflation. Rising interest rates and land and material costs are having a negative impact on construction, especially in the residential sector. At the same time, some growth in steel demand from the energy industries is expected. Activity in the manufacturing

sector has declined since the lockdown, driven by rising interest rates, higher automobile prices, and high motor fuel prices.

WSA experts expect that in 2025, global steel demand may enter a phase of moderate growth despite the challenges posed by such factors as high production costs, limited supply capacity and geopolitical uncertainty. The main factors driving global demand growth in 2025-2026 are likely to be the stabilization of the Chinese real estate sector, the impact of lower interest rates on private consumption and investment, and infrastructure spending on decarbonization and digital transformation in the world's major economies. Overall, one can expect steel demand growth of 1.5-2% in 2025.

The main motive of the green revolution in metallurgy is climate ideology, which in many countries has become a kind of religion. The financial factor plays a special role, especially in Europe.

European companies currently receive free permits for 94% of their carbon dioxide emissions, but this will change dramatically from 2026, when the EU's carbon tariffs (CBAM system) come into effect.

Previously, it could be assumed that this is another protectionist measure to protect the European steel market from foreign competition, but in fact the main idea of carbon tariffs is to actually reduce carbon dioxide emissions.

From 2026 to 2033, free emission permits will be gradually withdrawn from European steelmakers, and from 2034 they will be abolished completely. Fastmarkets estimates that the additional costs for European steel companies will reach 200-250 euros per ton of steel. Therefore, it is not surprising that leading companies are trying to minimize these costs.

The main ways are the mass replacement of blast furnaces and oxygen converters with electric arc furnaces (EAFs), which will reduce carbon dioxide emissions by at least half, the use of hydrogen-reduced iron as a raw material, and the conclusion of agreements to purchase renewable energy.

In 2023, about 57% of steelmaking in the European Union was accounted for by steel mills. At the same time, according to the regional association Erofer, about 60 green metallurgy facilities have been announced in the industry, the implementation of which will reduce carbon dioxide emissions by 81.5 million tons annually by 2030.

At the moment, two major companies – Austrian Voestalpine and Swedish SSAB - have moved to the practical implementation of these projects. The main focus is on commissioning electric arc furnaces of various capacities in combination with continuous casting machines. The projects are scheduled for implementation in 2027-2028.

The most extensive decarbonization program was announced by the transnational company ArcelorMittal. It includes 7 plants in 4 countries – Germany, France, Spain and Belgium. According to the program, it is planned to build 9 electric arc furnaces (EAF) and 5 modules of direct reduction of iron. Most of the projects are to be completed no later than 2030.

In addition to the modernization of existing plants in Europe, new green metallurgy plants are also planned to be built from scratch. Previously, no new plants have been built in the region for 40

years. Many companies are planning to use hydrogen as an energy carrier and DRI/HBI direct reduction products as the main raw material.

Overall, according to Eurofer, the total capacity of green metallurgy plants planned for commissioning by 2030 could reach about 58 million tons of steel and 26 million tons of DRI products. The volume of investments in these projects amounts to about 40 billion euros.

Many experts point out serious problems that metallurgical companies will face in the process of decarbonization. For example, it is no secret that hydrogen injection into blast furnaces significantly increases the energy consumption of the process, and besides, it turned out that hydrogen cannot fully replace blast furnace coke. The proposed as an alternative method of hydrogen capture and burial also does not solve the problem, because in Europe there are simply no appropriate underground waste layers where hydrogen can be stored.

In addition, the issue of hydrogen production has not been resolved, as the use of electrolyzers is a very costly and energy-intensive process that requires the creation of a network of renewable energy sources. According to expert estimates, the implementation of the declared green projects requires about 11.5 million tons of reduced iron, which requires 900 thousand tons of hydrogen. And decarbonization of the entire European metallurgy will require at least 5 million tons of green hydrogen per year, or 250 TWh, which is almost 10% of all energy consumed in the EU. Finally, the cost of hydrogen is estimated to be at least 6 euros per 1 kg. Thus, as a result of using hydrogen, the price of a ton of reduced iron produced in the DRI process will increase by at least 500 euros, which will lead to a very significant increase in the price of steel and all steel products.

Thus, there are a number of serious obstacles on the way to a complete transition to carbon-free steel production. First of all, mass transition to the use of electric arc furnaces will require a large amount of scrap, which is limited in resources. The same resource constraints apply to the production of sponge iron and high quality briquettes.

According to expert estimates, about 75 million tons of alternative raw materials (pellets and briquettes) will be needed to supply new metallurgical plants by 2033, while their supply, according to the announced plans, may increase by only 56 million tons per year.

In other words, the majority of green projects cannot yet count on reliable raw material supply, so in the future there may be serious obstacles in their practical implementation.

The Russian steel products market ended the first half of the year in a difficult position. In general, the current situation in the Russian economy is unique. On the one hand, there is a fairly large sector that continues to grow on budget money. This is the defense industry, critical infrastructure and priority import-substituting industries. The main implementers of this strategy are large companies, state and private ones.

On the other hand, the rest of the Russian economy is burdened by rising taxes and other payments. It faces constantly increasing costs for imported materials and equipment, credit resources, logistics and labor. This pushes up prices to cover costs and thereby fuels inflationary processes.

According to the Central Bank of Russia's calculations, the optimal GDP growth rate is 1.5-2.5% per year. With the current production capacities, human resources and labor productivity, it is

unlikely that more can be achieved. Anything higher is overheating, which leads to inflation growth.

It should be recalled that the main and practically the only mechanism of financial regulation in Russia is the change (in practice – increase) in the key rate of the Central Bank, which obviously leads to a further decline in investment and economic activity and, consequently, to a decrease in the consumption of metal products. And the alternative option of flooding the economy with cheap money is fraught with a sharp rise in inflation.

According to published data from the World Steel Association, moderate optimism is expected for global steel demand in 2025. The main factors driving global steel demand in 2025 are the stabilization of China's real estate sector, the impact of interest rate adjustments on stimulating private consumption and investment, and infrastructure spending on decarbonization and digital transformation in the world's largest economies.

Green transformation of the global economy, requiring economic changes of enormous scale and complexity, is a key driver of investment in public infrastructure. Steel demand for the expansion of global networks is expected to double to around 20 million tons by the end of the decade, doubling the current figure. The expansion of global renewable energy capacity and its connection to demand centers is estimated to require an increase in steel demand of about 40 million tons by the end of the 2020s. This could provide a tangible boost to overall steel demand, both in large developing countries (China, India) and in developed countries in Europe and North America.

The main survival factor for the Russian metallurgy industry is government policy aimed at reducing excessive fiscal burden and stimulating domestic demand. A crucial task is the preservation of jobs. Unfortunately, the metallurgy development strategy for the period until 2030, approved in 2022, does not yet clarify the immediate prospects. Russian business is pinning its main hopes on the reduction of the key interest rate, which should trigger an upturn in large-scale construction in new territories, as well as a revival of demand from the automotive, non-residential and infrastructure construction, railway car building and household appliance manufacturing industries.

Aluminum

According to the International Aluminium Institute (IAI), the annual growth rate of global primary aluminum production in 2024 was about 3.5%, which is a record in the history of the industry (Table 12).

In August 2024, the global aluminum industry experienced notable price fluctuations reflecting the complex interplay of market dynamics and macroeconomic factors, reflected in moderate price increases on the London Metal Exchange (LME). This can be attributed to ongoing supply chain constraints as well as increased demand in several sectors, such as electric vehicle production in China.

In general, India, the Middle East, Central and South America maintained their positions.

Table 12. World primary aluminum production and consumption, mln t.

	Production			Consumption		
	2023	2024	2025	2023	2024	2025
World	74,3	75,5	76–77,5	77,5	75,5	77–78
China	38,5	46	46–48	25,7	34,5	35–36,5
Japan	–	–	–	2,7	2,76	2,7–2,8
USA	2,85	3,0	3,1–3,2	6,6	6,7	6,7–6,8
Russia	2,7	2,76	2,5–2,8	0,8	0,8	0,76–0,86
Norway	1,64	1,65	1,6–1,65	0,78	0,8	0,8–0,83
Canada	1,0	1,05	1–1,05	0,86	0,86	0,87–0,88
Central and South America	1,45	1,47	1,45–1,48	1,53	1,54	1,53–1,6
Europe	4,57	5,0	5–5,2	9,55	9,6	9,6–9,65
India	3,45	3,48	3,45–3,55	2,12	2,14	2,12–2,15
Middle East*	4,7	4,65	4,7–4,75	1,65	1,7	1,75–1,8
Australia	2,14	2,18	2,18–2,2	0,32	0,35	0,36–0,4

* Saudi Arabia, Bahrain, UAE.

Source: International Aluminium Institute (IAI), Aluminum Association – association of producers, suppliers and consumers of aluminum.

China's aluminum complex continues to face severe power shortages and stricter decarbonization requirements. Despite this, China's share of global aluminum production increased from 51.8% to 60.9% over the year. Volatility and capacity shortages in the energy sector also markedly slowed the growth of production down in Europe, even to the point of closing some smelters.

By the end of 2024, the global aluminum market is expected to have a surplus of about 500 thousand tons, which will determine the price level on the London Metal Exchange.

Russian monopolist Rusal (about 5.5% of global production) is one of the world's leading aluminum producers by a combination of characteristics (production volume, environmental friendliness, position in sales markets). The company's energy base is formed by the largest Siberian hydroelectric power plants, which provides aluminum production with a low carbon footprint.

Therefore, Russian aluminum is the lowest in terms of carbon footprint: greenhouse gas emissions during production are less than 4 tons per 1 ton of metal in CO2 equivalent.

For comparison, the global average for the production of 1 t of aluminum is 11.4 t of carbon dioxide. In China, due to the use of coal-fired generation, emissions reach 20 tons of CO2 per 1 ton of metal.

Western sanctions caused Rusal's pricing policy to be revised due to additional risks and the search for discounts in trade deals. The LME joined in, banning deliveries of Russian metal to warehouses owned by the Exchange. For a company like Rusal, which is export-oriented (about 75-80%), this is associated with a significant loss of profit and the search for new consumers on the world market. Currently, with the loss of major importers in the EU and the US, China and the Republic of Korea have become important consumers of Russian metal.

In general, aluminum is one of the most liquid commodities in world trade. The World Bank attributes the main growth in global demand for the metal to the development of solar energy and energy conservation technologies.

Russia is planning a significant increase in the use of aluminum in construction, packaging, and energy transportation.

Paper and forest products

In Russia, the main export-oriented sectors of the forest industry remain the harvesting of softwood business timber⁴¹, production of softwood sawn timber⁴², glued plywood, wood pulp, paper and cardboard. In 2023, these markets accounted for about 75% of the value of global exports of all types of paper and forest products produced by the global forest industry complex. In Russia this indicator in 2023 was, as before, significantly higher – more than 80%. This is explained by the peculiarity of its forest resources, not only the richest in the world, but also represented mainly by coniferous species, which are necessary for the production of softwood lumber, glued plywood, pulp and its products.

In this context, Russia's transition to active exports of softwood sawn timber is particularly important: its share in Russia's exports of paper and forest products amounted to 46% in 2023, while only 6% was accounted for softwood business timber. The share of other major paper and forest products exports also exceeded the share of unprocessed wood: paper and cardboard accounted for 22%, glued plywood for 13.3%, and wood fiber semi-finished products for 12.2%.

The countries of Western Europe and North America continued to show low activity in the global markets of paper and forest products in 2023 and 2024, and their share in the global production of woodworking and pulp and paper industry continued to decline. This was due to changes in energy markets due to the withdrawal of Russian energy sources (natural gas and oil), which sharply increased the costs of industries involved in the production of sawn wood, wood sheets, pulp, paper and paperboard.

Russia will continue the process of transition from the external market of unprocessed softwood roundwood to the global markets for its processed products, which will be reflected in 2025. This trend reflects Russia's strategic movement towards deepening the processing of its own wood raw materials, increasing the economic effect from their use and expansion into foreign markets for wood products. The transfer under Russian control of a number of production facilities of Western timber companies that were operating in Russia before the start of the Ukrainian conflict in 2022 contributed to this softstrategic movement. Swedish, Finnish and Austrian woodworking firms sold 11 facilities located in the Russian Federation. These production capacities have mostly continued to operate under Russian management. A number of foreign companies continued to operate in Russia despite the sanctions, including the Austrian companies Egger and Kronospan, Swiss Krono Group, Turkish Kastamonu, German PERI, and Japanese Iida Holdings Group.

The problem of Russian lumber exports to China due to the “housing bubble” in China may negatively affect the demand for Russian timber products in 2025 as well. At the same time, the Chinese authorities are trying to solve this problem with strong levers of state regulation by rescuing large national construction companies from bankruptcy and canceling debts on residential construction loans.

In 2024, China continued to be an important driver of global trade in paper and forest products. It replaced Russian suppliers of unprocessed softwood raw materials with purchases from New

⁴¹ Includes sawn timber, plywood strands, pulp and paper balances, and other roundwood used as raw material for industrial processing and in construction.

⁴² Includes planks, timbers, sleepers and other sawmill products.

Zealand and Western Europe. At the same time, China is increasingly interested in intensifying 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' activities on the Chinese market and stimulates the development of relevant industries in the Far East of Russia.

The situation in the global pulp and paper industry in 2023-2024 reflects 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 Media. At the same time, the consumption of sanitary and household paper grades, certain types of paperboard, specialty paper grades, and pulp, including fluffed and soluble pulp, continued to grow, albeit at a slower pace.

Experts' assessments of the countries belonging to the group of industrialized countries (Europe and North America) indicate a return to downward dynamics of the paper and paperboard market in 2024 in the respective countries. Thus, it can be expected that the production of paper and paperboard in 2024 will decrease by 1.9% compared to 2023.

In the developed world, we should expect the pulp and paper industry to continue its restructuring process in 2025. This restructuring implies a reorientation towards viable segments of the paper and paperboard market, as well as towards products manufactured by so-called wood biomass refining and nanotechnological processing of wood raw materials. It is possible that production capacities will continue to be relocated, primarily from Europe, to capital-attractive South American countries (Brazil, Chile) in order to reduce the cost of paper and paperboard products. Scientific and technical progress in the sphere of wood raw materials utilization, as the experience of Japan shows, allows us to expect mastering the production of a new class of so-called nanofibers from wood by nanotechnological methods, which can give impetus to new industries for obtaining materials with new properties (high flexibility, strength, etc.) capable of displacing plastics from a number of spheres of use. This creates favorable prospects for the restructuring of the global pulp and paper industry and its growth.

The pulp and paper industry in China, which has become the world's largest producer of paper and paperboard, has undergone 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 has been a deep structural reorganization of the industry aimed at closing down old, small and inefficient production facilities for paper and paperboard from non-wood raw materials (bamboo, cotton linter, etc.) while developing modern large pulp and paper mills that use wood raw materials. This objectively encourages China's demand for wood-based raw materials for pulp and paper mills, the shortage of which is filled by imports. Secondly, we can note the emergence of a new trend in China's import policy. Its imports have become more actively reoriented towards market pulp instead of unprocessed wood in the form of balances or process chips.

China continued to adjust to changes in the nature of paper demand, mainly reflected in a decline in the consumption of information paper grades. In 2025, the Chinese paper and paperboard market can be expected to slow down by 1.0% in terms of production and 1.5% in terms of consumption. In Japan's pulp and paper industry, a decrease in output (by 0.9%) can be expected in 2025.

In 2025, an increase in export prices for wood raw materials and wood products (sawn timber, glued plywood) should be expected in the context of the crisis in Russia's relations with Western

countries. World prices for paper and cardboard in 2025 may continue to grow in the same way as in 2023-2024. According to our forecast, average world export prices (Russian prices are given in brackets) in the softwood market in 2025 will amount to \$110-120 USD per cubic meter (\$110-120 USD) against \$100 USD (\$110) in 2023. In paper and cardboard market, average world export prices in 2025 will amount to \$1250-1350 per ton (\$1100-1200) against 1100 (980) in 2023. Export prices of Russian products will grow in parallel with the growth of world prices.

Among the factors affecting the dynamics of the world markets of paper and forest products, serious problems in the construction sector in China have come to the forefront. Under such conditions, the Chinese market cannot compensate Russian producers for the loss of Western markets. It is necessary to maneuver in export policy, possibly with reorientation to the Middle East and North Africa, i.e. geographical diversification of trade relations.

Russia continued to restrict supplies of unprocessed wood to foreign markets and ceased to exert a restraining influence on price dynamics for softwood business timber due to lower prices for Russian roundwood. This led to an increase in prices for this type of raw material on the world market and, as a consequence, for pulp, paper and cardboard produced from softwood raw materials.

Increased protectionist tendencies and intensified competition for favorable markets are forcing Russian producers to think more carefully about their export strategy. The more than twofold decrease in softwood exports was accompanied by the intensified construction of wood processing plants in Russia. Foreign capital interested in utilizing Russian forest resources, including those from Finland and China, took an active part in this process. Facilities for the production of sawn timber, glued plywood, wood panels, etc. were created, including near the Russian-Chinese border. At the same time, Russian producers retain serious positions in the global market of softwood raw materials (4th place in the world in terms of exports of these products in 2024 after New Zealand, the Czech Republic and Germany). In the sawn timber markets, the opportunities for Russia to compete are significantly complicated (standards, import duties, non-tariff restrictions, etc.), which requires the creation of a truly export-oriented timber industry that takes into account the conditions of foreign markets.

Table 13. World logging and consumption of softwood business timber, mln cubic meters.

	Production			Consumption		
	2023	2024	2025	2023	2024	2025
World	1181,7	1179,8	1185,7	1167,6	1166,7	1176,1
Asia	83,5	83,4	83,0	120,9	129,3	130,5
China	28,9	28,8	28,7	62,1	65,3	66,6
Japan	21,2	21,3	20,6	22,5	22,6	21,5
Europe	500,2	498,2	463,4	484,9	493,8	439,5
United Kingdom	8,5	8,7	8,3	8,8	8,8	8,7
Germany	49,5	46,5	40,9	48,2	45,9	39,0
Russia	164,2	167,2	177,2	156,8	159,1	169,5
Finland	49,5	44,3	44,8	49,5	45,1	45,1
France	17,5	17,0	15,4	16,6	16,5	15,3

Sweden	64,8	61,8	58,1	66,8	65,0	61,8
North America	420,8	421,2	420,1	415,9	415,3	414,7
Canada	115,5	116,5	115,4	115,2	115,1	114,6
USA	305,3	304,7	304,7	300,6	300,2	300,2

Among the innovations in Russia's state policy is the introduction of new rules on the use of logging and mechanical wood processing waste. A list of types of woodworking products was approved, which will be produced from January 1, 2025 by timber producers with the mandatory use of a high proportion (95%) of secondary raw materials – chips, shavings, sawdust and other woodworking waste. This list includes enterprises producing wood flour, fuel pellets and briquettes, chipboard. It is noted that these changes will have to minimize the use of roundwood for the production of by-products.

Table 14. World production and consumption of paper and paperboard, mln tons.

	Production			Consumption		
	2023	2024	2025	2023	2024	2025
World	412,6	407,6	403,5	417,8	413,9	411,8
Asia	209,5	210,1	210,8	224,9	224,3	224,8
China	128,6	129,7	131,0	137,3	139,3	141,3
Japan	23,5	23,3	23,1	22,4	22,2	22,0
Europe	96,2	96,6	96,7	89,4	90,8	91,6
United Kingdom	3,6	3,8	3,9	7,2	7,7	7,8
Germany	21,5	20,8	19,7	17,7	18,1	16,9
Russia	9,6	9,8	9,9	7,1	7,3	7,4
Finland	8,7	8,2	8,2	1,3	1,4	1,3
France	6,7	6,8	6,2	7,8	7,9	7,2
Sweden	8,7	8,8	9,0	0,8	1,3	1,3
North America	75,2	71,5	67,1	70,1	69,8	65,2
Canada	9,0	9,0	9,0	5,6	5,7	5,7
USA	66,2	62,5	58,2	64,5	64,1	59,6

STATE AND FORECAST OF ECONOMIC DEVELOPMENT OF MAJOR FOREIGN COUNTRIES

European countries

European Union

Hopes for a rapid recovery and flexibility of the European economy have not been fully realized: growth acceleration and the long-awaited transition to the necessary dynamics have not occurred. The transformation of the EU economic processes under the influence of political factors has a longer time frame than expected. According to the European Commission data released in November 2024⁴³, the growth of the EU and Eurozone economies will amount to 0.9% and 0.8%, respectively, which is more than 1.5 times lower than it was estimated in 2023, when the results for 2024 were forecasted at the level of 1.2%-1.3%. The main factors of economic dynamics were the revival of foreign trade, although not so dynamic, the increase in disposable incomes of the population, greater availability of capital due to the ECB policy with a decrease in investment activity. Current assessments of the future development of the EU may also become overly optimistic in case of vigorous implementation of economic decisions of the US President-elect Donald Trump.

Although the period of a multiple contraction in EU GDP growth is most likely over, the pace of recovery is lower than expected and insufficient to equalize the economic situation. A number of countries continue to experience GDP contraction: these are Germany, Finland, Ireland, Austria, Estonia. The largest economy of the EU is experiencing negative effects due to lower domestic and external demand for secondary sector products, problems in the construction sector, lower investment activity, weak recovery of personal consumption. The problems of the German economy persist, and hopes for its rapid recovery are still not justified, which, in turn, aggravates the situation in the EU member states dependent on Germany, which are experiencing a “spillover” of negative processes. The situation in Ireland, where the largest drop in GDP in the EU is observed, is determined by negative processes in the large corporate sector.

Southern European countries (Malta, Cyprus, Croatia, Spain) continued to demonstrate accelerated economic growth due to domestic consumption, as well as intensified foreign trade and tourism. Poland was also able to demonstrate comparable dynamics, mainly due to domestic consumption. Contrary to initial forecasts that envisaged an increase in economic dynamism in 2025, France is likely to develop in a quasi-stagnation that began in 2022, characterized by low economic growth of around 1% of GDP, below the potential growth rate estimated at 1.4-1.5%. The negative impact of a sharp rise in energy prices in 2022 has almost disappeared. Domestic political uncertainty has added to the negative effects of persisting international tensions.

⁴³ Autumn 2024 Economic Forecast: A gradual rebound in an adverse environment // European Commission. 2024. November. URL: https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/autumn-2024-economic-forecast-gradual-rebound-adverse-environment_en (Accessed: 20/12/24).

Table 15. Forecast of GDP and unemployment dynamics in the EU.

Country	Share in EU GDP, %	GDP dynamics, %			Unemployment, %		
	2023	2023	2024	2025	2023	2024	2025
Germany	24,3	-0,3	-0,1	0,6	3,1	3,3	3,2
France	16,4	0,9	1,1	1,0	7,3	7,4	7,4
Italy	12,4	0,7	0,6	0,9	7,7	6,8	6,4
Spain	8,7	2,7	2,8	2,2	12,2	11,5	11,1
Netherlands	6,2	0,1	0,5	1,4	3,6	3,7	3,8
Belgium	3,5	1,3	1,1	1,2	5,5	5,6	5,7
Ireland	3,0	-5,5	-0,5	3,0	4,3	4,4	4,4
Austria	2,8	-1,0	-0,6	1,0	5,1	5,3	5,3
Finland	1,6	-1,2	-0,3	1,4	7,2	8,2	7,9
Portugal	1,6	2,5	1,8	2,1	6,5	6,4	6,3
Greece	1,3	2,3	2,2	2,1	11,1	10,4	10,0
Eurozone – 20	84,9	0,4	0,8	1,2	6,6	6,5	6,4
Poland	4,4	0,1	2,9	3,5	2,8	2,9	2,8
Sweden	3,1	-0,3	0,4	2,2	7,7	8,5	8,4
Denmark	2,2	2,5	2,0	2,2	5,1	5,8	5,8
Romania	1,9	2,4	1,8	2,8	5,6	5,5	5,4
Czech Republic	1,8	-0,1	1,1	2,3	2,6	2,6	2,5
EU-27	100	0,4	0,9	1,3	6,1	6,1	5,9

Source: data for 2023 and 2024 (preliminary estimate) – Eurostat⁴⁴, forecast for 2025 – IMEMO RAS.

Increased uncertainty fuels the wait-and-see behavior of both consumers and investors, and its negative impact on economic growth rates is estimated by experts at 0.1-0.2% of GDP per year. Within the framework of macroeconomic regulation, fiscal and monetary policy will switch places. In 2024, budget regulation continued to support the conjuncture, as the developed measures to improve public finances remained under the table due to the pause in the activities of the executive branch after the dissolution of the National Assembly. On the contrary, in 2025, limiting the government's budget deficit will act as a powerful depressive factor. The share of the EU's largest economies, represented by Germany, France and Italy, in the total GDP of the integration union continues to decline. At the same time, the share of “new” member states, such as Poland, Czech Republic and Romania, is growing, reinforcing their political ambitions.

The consequences of integration processes and the priorities of the single market predetermine the predominance of intra-bloc trade within the EU. Although the share of non-EU exports in 2023 increased by 0.5 p. p. and amounted to 38.3% of the total volume, it corresponds to one of the lowest figures over the last 15 years, which confirms the persistence of the long-term trend towards a reduction in non-bloc trade. The changes in 2023 export flows were associated, among other

⁴⁴ Database // Eurostat. URL: <https://ec.europa.eu/eurostat/web/main/data/database> (Accessed: 21/12/24).

things, with growing shares of the North American, Turkish and Ukrainian markets. After a surge in 2022, import flows returned to their pre-2022 level: the share of non-EU imports fell by 3.8 p. p., to the usual 38.5% of total imports in 2023. It is likely that the established trends of non-bloc EU trade will continue in 2024-2025 as well.

The EU economy is still experiencing the consequences of crisis processes, including sanctions effects. Industrial production continues to decline. Particular difficulties are characteristic of energy-intensive industries, including metallurgy, chemical and timber sectors. Although the dynamics of industrial prices shows positive shifts, they are slow. There is a decline in some sectors of agriculture. In the future, the situation is likely to worsen due to the natural disasters experienced by Europe in 2024. The issue of bankruptcies, sharply aggravated in 2023, remains on the European economic agenda. The alleviation of some economic problems has not led to a stable and predictable economic situation. The curtailment of state support has a negative impact on business activity. Difficult situation remains in certain industries, transport and some other tertiary sectors. The decline in investment activity reflects not only the stagnant state and lack of prospects for visible expansion of aggregate demand. The financial situation of enterprises will continue to deteriorate, which, in a depressed environment, find it increasingly difficult to transfer rising costs into the prices of sold products. In France, the increasing number of bankruptcies, which will exceed 60,000 in 2024 – the highest figure in the last 15 years – is a clear indication of the growing strain on the use of financial resources by business.

The lack of financial resources remains a key challenge for the EU, not only in terms of current growth but also in terms of long-term priorities. “Emergency” needs have led to an imbalance in EU finances. Public debt and budget deficits will remain off-target with the most acute situation in major EU economies such as Italy, France, Spain. The weighted average budget deficit, according to the European Commission's estimates, will amount to 3.1% in the EU and 3.0% in the Eurozone, with a possible reduction in 2025 to 3.0% and 2.9% respectively. Public debt, contrary to expectations, has shown growth. On average, it will amount to 82.4% in the EU in 2024 and 89.1% in the Eurozone. In 2025, the indicators will continue to grow to 83.0% and 89.6%, respectively.

Although the measures taken by the EU have had some positive impact, the recovery process is not complete. In France in particular, the situation is still far from the target: an unprecedented discrepancy between the financial law and the actual budget implementation in 2024. While the budget deficit was initially envisaged at 4.4% of GDP (later adjusted to 5.1%), in reality it may reach 6.1% due to under-taxation and unforeseen swelling of local government expenditures. The draft budget for 2025 officially announced savings of 60 billion euros, the largest amount ever, which, in accordance with the recommendations of experts, was divided into spending cuts (2/3) and tax hikes (1/3).

Inflation in the EU is expected to more than halve by the end of 2024 compared to the previous year and amount to 2.6%. The main factor was a decrease in the inflation rate in the largest European economies and a more intensive fall in smaller countries that experienced its sharp rise in 2022-2023. The largest declines in inflation were observed in Lithuania, Latvia, Italy, Hungary and Finland. The exception was Belgium, where the indicator will increase by 2.1 p. p. due to an increase in prices in the electricity sector because of the end of their state regulation. Increased inflationary pressure remains characteristic of the Baltic and Central-Eastern European countries,

which was also observed in previous years: in Romania – 5.5%, in Poland and Hungary – 3.8% each, in Estonia – 3.6%. Thus, the “inflation crisis” in the EU is coming to an end. The continued decline in inflationary pressure in the EU was due to the food and energy components: the basis of the current price increase is the service sector. A further fading of inflationary pressure is also expected in 2025.

The weakening of inflationary pressure while the depressive conjuncture persisted led to the adjustment of the European Central Bank's policy. The peak of the restraining effect on aggregate demand of the ECB's tight monetary policy was in 2024. As expected, the ECB rate, ahead of the Fed, gradually began to decline in 2024, but is still at a high level. Credit conditions for households and businesses have become more lenient, but continue to have a dampening effect on domestic demand. Further easing of the ECB policy will continue in 2025, which should have a positive impact on the dynamics of economic growth.

The European labor market is demonstrating stable positive dynamics: the unemployment rate is decreasing. A number of countries manage to keep the rates at a level comparable to historical lows – Germany, Ireland, Poland, Romania, Slovenia, Croatia. In France, on the contrary, unemployment is expected to rise: the growth of new jobs will slow down due to low business activity, and the plans of staff reduction announced by enterprises have increased. The situation in the field of youth unemployment remains unstable. The situation is particularly acute in two groups of countries with rates above 20%:

- in Spain, Romania, Portugal, Slovakia, where the problem is of a long-term nature;
- in Sweden, Luxembourg, Estonia, where exacerbation is observed in the post-COVID period.

Although the indicators have been going down recently, the unemployment norms remain high in these countries, which hampers quality economic growth and generates social problems. Significant improvements are not expected in labor productivity either: the EU has not been able to find effective mechanisms to shift the dynamics to strong growth.

As expected, the recovery processes in FDI started in 2023. The volume of accumulated FDI in the EU increased by 6.7% and exceeded the level of 2021. The EU itself also began to actively invest in foreign projects: growth of more than 7% in 2023. Investors have partially adapted to the new conditions of economic activity and have become more active. The increase in investment activity is likely to continue in the future as the economic situation in the integration union improves. However, the risk of negative consequences from the actions of the new administration of Donald Trump remains, which may drastically change the situation for the worse.

In terms of financial incentives for Europe to revitalize its own economy, the issue of supporting Ukraine remains. This year, as part of the decision taken at the end of 2023 to start negotiations on Ukraine's accession to the integration union, the EU has been able to expand the volume of investments from the common budget to Ukraine. However, the insufficiency of these funds forced the EU to create a separate Ukraine Facility, which came into effect in March 2024 and is managed

by the European Commission, i.e. does not require numerous approvals⁴⁵. As a result of the revision of the multi-year financial plan and reduction of funding for a number of pan-European programs, including Horizon Europe, the Ukraine Facility amounted to €50 billion for 2024-2027, which is significantly more than the funds Ukraine previously received from the EU. Part of the Ukraine Facility funds will be replenished by income from Russian assets. 66% of the Ukraine Facility will be allocated in the form of loans on favorable terms, while the rest will be non-refundable grants. In terms of investment directions, the overwhelming part of Ukraine Facility in the amount of 76.5% of the total funds is planned to be spent on support, rehabilitation, modernization and reforms with a view to its further accession to the EU. The remaining 11.4 billion will be used to ensure investment processes in Ukraine with the involvement of foreign actors and to support the authorities in the implementation of EU legislation and structural reforms. The scale of financial injections and reforms suggests the EU's intention to form a “new” EU member in the person of Ukraine in the coming years, but the timing and potential insufficiency of already allocated investments due to the impossibility of taking into account all the needs in the current conditions indicate that the EU plans are unlikely to be fully realized. However, the process of supporting and reforming Ukraine will continue, while the lack of financial resources in many areas of the EU itself will have a negative impact on the dynamics and quality of its economic development.

The EU economy will not be able to demonstrate higher growth rates in 2025. Long-term factors hindering recovery and maintaining the lag in growth compared to the US include the cost of the green agenda, lack of qualified specialists, continued dependence on a number of goods and services, and the problem of competitiveness. The consequences of the sanctions policy remain relevant, including higher inflation rates, lower production in energy-intensive sectors, problems in the agro-industrial complex, and social consequences. The imbalance in public debt issues and budget deficit against the backdrop of continued support for Ukraine do not contribute to the intensification of economic growth. The uncertainty factor due to the new administration in the US does not improve the situation in the EU. Partial recovery of consumption and external demand are unable to ensure the desired economic growth. Under the conditions of continued prioritization of policy over the economy and the absence of crisis processes comparable in scale to the pandemic, the growth of the EU economy will remain at a low level.

United Kingdom

The victory of the Labor Party in the general parliamentary elections in July 2024 was accompanied by a change in the theoretical concepts underlying the economic policy of the British government, a shift of emphasis in the system of state regulation from monetary and fiscal incentives to the labor market and a shift in the balance between the private and public sector towards the latter.

The Labor approach to economic management - Securonomics - was developed by Chancellor of the Treasury R. Reeves on the basis of the new supply-side economics of US Treasury Secretary J. Yellen and the similar concept of productivism of Harvard University professor D. Rodrik. In the British reality, this approach implies an active industrial policy aimed at supporting basic industries that meet the daily needs of the population (infrastructure, social protection, childcare, retail) and

⁴⁵ European Neighbourhood Policy and Enlargement Negotiations. Ukraine Facility // European Commission. URL: https://neighbourhood-enlargement.ec.europa.eu/european-neighbourhood-policy/countries-region/ukraine/ukraine-facility_en (Accessed: 22/12/24).

the creation of so-called “good jobs”: these are jobs that do not require qualifications but guarantee stable employment, good working conditions and wages that provide an acceptable standard of living⁴⁶. In practice, such a strategy entails a review of minimum wage levels and workers' labor rights and requires increased public spending. Among the measures taken by the new government are a substantial increase in the minimum wage for young people aged 18-20 and the introduction of a bill in parliament that significantly expands the rights of workers at the expense of employers⁴⁷.

The Labor government's first budget, presented in October 2024, announced a sharp increase in spending and a corresponding increase in taxes and borrowing. Over the 5 years, public spending will increase by an average of 69.5 billion pounds, or 2.2% of GDP, with 2/3 of this amount going to current spending and 1/3 to investment. The increase in expenditures will be financed partly through tax measures and partly through government borrowing. The main sources of additional tax revenues will be an increase in employer social security contributions (24.5 billion pounds sterling per year) and an increase in capital gains tax (5.6 billion pounds sterling per year). By FY 2027/28, the tax burden will reach a record 38.3% of GDP, up from 33.1% of GDP before the pandemic. The measures announced in the budget will result in a 1.25% reduction in real disposable income per capita by 2029, which the Office for Budget Responsibility sees as evidence of a shift of resources from private household income to the public sector⁴⁸.

It should be noted that until recently the British labor market was considered relatively flexible by European standards, and corporate taxes were relatively low. Stricter regulation of labor relations and increased taxation may have negative consequences in the form of, firstly, higher prices for goods and services due to the transfer of part of business costs to consumers, secondly, increased pressure on small and medium-sized businesses and washing out small companies from the market and, thirdly, increased unemployment, especially among those without work experience.

A fundamental role is played by the abolition of the 200 years old preferential tax regime for non-domicile individuals who, unlike tax residents, did not pay tax on income earned abroad. This measure was announced in spring 2024 by the previous (Conservative) government and the current government supported it. The impact of this measure on the budget is limited, and it can be seen as having a more ideological rather than economic character. The consequence of this measure, as well as the observed deterioration of the business climate and stricter regulation in general, has been the migration of wealthy individuals. According to Henley&Partners, the world's largest citizenship-by-investment consultancy, the United Kingdom will be second only to China in the number of millionaires and billionaires moving to other jurisdictions in 2024, at around 9,500 people⁴⁹.

⁴⁶ Read and watch Rachel Reeves full speech: New Labour left UK economic weakness ‘exposed’. 20 March 2024. URL: <https://labourlist.org/2024/03/rachel-reeves-mais-lecture-2024-decade-national-renewal-economic-growth/> (Accessed: 25/11/24); *Reeves R.* A New Business Model for Britain: Building Economic Strength in an Age of Insecurity. Labour Together. May 2024. URL: <https://www.labourtogether.uk/all-reports/a-new-business-model-for-britain> (Accessed: 25/11/24); *Rodrik D., Spencer H.* Productivist policies for the UK. IPPR Progressive Review. Vol. 30. Issue 3. Winter 2023. P. 161-166.

⁴⁷ Employment Rights Bill. Originated in the House of Commons, Session 2024-25. URL: <https://bills.parliament.uk/bills/3737> (Accessed: 10/12/24).

⁴⁸ Economic and fiscal outlook. Office for Budget Responsibility. October 2024. P. 49-51. URL: https://obr.uk/docs/dlm_uploads/OBR_Economic_and_fiscal_outlook_Oct_2024.pdf (Accessed: 10/12/24).

⁴⁹ The Henley Private Wealth Migration Report 2024 // Henley & Partners. 2024. June. URL: <https://www.henleyglobal.com/newsroom/press-releases/henley-private-wealth-migration-report-2024> (Accessed: 11/12/24).

Meanwhile, British living standards in the 2020s increased at the slowest rate since at least the 1970s, and the hallmark of this period was the slower growth of per capita GDP compared to real GDP. While in mid-2024 real GDP growth compared to pre-pandemic levels was 2.9%, GDP per capita had not yet recovered by that time and was 0.6% lower than before the pandemic. The British statistical office explains this situation by the fact that the population is growing faster than the economy⁵⁰. Since the population growth is caused by the inflow of migrants, among whom working-age people predominate, the number of labor force and, as a consequence, per capita GDP are expected to increase in the future. However, the economy is currently unable to adjust to demographic growth due to the high level of economic inactivity of the population and low labor productivity. It is believed that the growth of economic inactivity is due to the expansion of the criteria by which a person is recognized as incapable of work, as well as the widespread use of benefits, the receipt of which is not associated with the need to find a job⁵¹. The same circumstance accounts for the relatively low unemployment rate in the range of 4.0-4.4%⁵². Given the multidirectional forces operating in the labor market, unemployment can be expected to rise in 2025, but very modestly.

Table 16. Forecast of UK GDP and unemployment dynamics.

Country	GDP dynamics, %			Unemployment, % of economically active population		
	2023	2024	2025	2023	2024	2025
United Kingdom	0,3	1,0	1,2	4,0	4,3	4,8

Source: IMEMO forecast.

In 2025, government spending will be the main driver of economic growth, and in general, the economy may gain 1.2% for the year. Inflation will exceed the target of 2.0%, which will require the Bank of England to take a cautious approach to reducing interest rates. As the US is the UK's largest trading partner, the foreign trade policy of the Republican administration may have some impact on the UK economy in 2025: if trade duties are avoided, we can expect stronger growth.

In terms of the UK's relationship with Russia, as of mid-2024, trade between these countries accounted for 0.1% of the UK's total foreign trade, with Russia ranking 69th among the UK's

⁵⁰ Trends in UK real GDP per head: 2022 to 2024 // Office for National Statistical. 2024. 18.10. URL: <https://www.ons.gov.uk/economy/grossdomesticproductgdp/articles/trendsinukrealgdpperhead/2022to2024> (Accessed: 15/12/24).

⁵¹ One should also bear in mind the reduced reliability of labor market statistics due to the reduced sample of households participating in the sample labor force survey during the pandemic. For more details, see: Research Briefing. House of Commons Library. UK Labour Market Statistics // UK Parliament. 2024. 15.10. P. 27–31. URL: <https://researchbriefings.files.parliament.uk/documents/CBP-9366/CBP-9366.pdf> (Accessed: 15/12/24).

⁵² Unemployment rate (aged 16 and over, seasonally adjusted): % // Office for National Statistics. 2024. 12.11. URL: <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/timeseries/mgsx/lms> (Accessed: 16/12/24).

trading partners⁵³. Given that the dependence of the British economy on Russian imports and exports has been low in the past, the retaliatory impact of sanctions on it is negligible.

⁵³ Department for Business & Trade. Trade and investment factsheets: Russia. // GOV.UK. 2024. 01.11. URL: <https://assets.publishing.service.gov.uk/media/67220e7510b0d582ee8c48b3/russia-trade-and-investment-factsheet-2024-11-01.pdf> (Accessed: 27/12/24).

United States of America

The US economy in 2024 showed good macroeconomic performance. Gross domestic product, according to the Bureau of Economic Analysis (BEA), grew by 6.1% in 2021, 2.5% in 2022, and 2.9% in 2023, and is estimated to grow by 2.9% to 3.0% in 2024. In 2025, according to our estimates, the growth will continue and will amount to about 3%. Nominal wage growth, according to the BEA, amounted to 5.6% year-on-year in October 2024. The unemployment rate continues to remain quite low at 4.1% in October 2024, according to the Bureau of Labor Statistics (BLS). Annual growth in the consumer price index continued to decline to 2.6% in October 2024 year-to-date, according to the BLS. This is still above the 2% target, but the steady downward trend in consumer inflation has allowed the Fed to begin a cycle of rate cuts from 5.5% to 5% in September and from 5% to 4.75% in November 2024. At the same time, the consumer confidence index of the University of Michigan, although it increased from the minimum values of 66.4 p. in June 2024 to 70.5 p. in October 2024, but still has not reached the values of 79 p. at the beginning of 2024, nor the pre-pandemic maximum in February 2020 (101 p.). Due to discrepancies between macroeconomic statistics and surveys of Americans, the business press began to talk about the problem of the population's perception of economic reality.

However, there are reasons to believe that the problem is not in the perception, but in the interpretation of macroeconomic statistics. Thus, according to the BLS data, from May 2023 to May 2024, the average hourly income grew by 4.0%, while the consumer price index grew by 3.3%; in other words, the real growth of average incomes for the designated period amounted to 0.7%. Thus, the real income of the majority grew very slowly. The median annual household income in 2023 was \$80,610, up from \$77,540 in 2022 and \$79,260 in 2021, but most voters compare their situation to 2019, when the median annual income was \$81,210 in the dollars of 2023.

Meanwhile, inflation is always unevenly distributed among people with different incomes. The poorest people bear the greatest burden of inflation. A Fed rate hike in 2022-2023 increased the cost of servicing consumer credit, which was more than \$1,082 billion at the end of October 2024, hitting the budgets of low-income people even harder.

In terms of industrial policy, the outgoing administration was able to achieve limited results. The laws on infrastructure, inflation reduction, and semiconductor development passed in 2021 and 2022 were supposed to lead to an investment boom. Real gross domestic investment did rise from \$4679.7 billion in 2021 to \$4903.8 billion in 2022 and to \$4,966.2 billion in 2023, but net investment fell by \$57.9 billion between 2022 and 2023. Moreover, intellectual property investment, at \$288.6 billion, accounts for the majority of net private investment, which is larger than investment in both equipment (\$226.1 billion) and nonresidential construction (\$204.4 billion). The same distribution holds true for public investment, with depreciation exceeding gross investment in construction of buildings at the federal level.

The data for 2024 could hypothetically still change the overall picture, but at the moment it is hard to call it an explosion of investment activity, and Biden's policy has not led to structural changes in the US economy. This is reflected, among other things, in the employment structure: according to the BLS, the largest employment gains on average between October 2023 and October 2024 were in medical services, including nursing services (82k/month), government (41k/month), and hospitality (21k/month).

Together, these factors led to a general dissatisfaction with the Biden administration's policies and were one of the reasons for the electoral defeat of Vice President Kamala Harris, who failed to position herself as anything other than a continuation of the current administration's policies. Donald Trump was elected largely on the expectation that the 2019 economy would bounce back under him, but those expectations are likely to be duped. The new administration's economic policies, as far as is currently known, will consist of 3 main elements: tax cuts, protectionism in foreign trade, and reformatting the regulatory apparatus of the federal government.

As director of the National Economic Council, Donald Trump nominated Kevin Hassett, who in Trump's first term was one of the main authors of the 2018 tax law amendments. These amendments expire in 2025, and Trump has already promised not only to extend them, but also to lower some rates, notably the corporate tax rate from 21% to 15%. Since it is unlikely that there will be significant cuts to the spending on the subsidies enacted in 2021-2022, the tax cuts are likely to increase pressure on the federal budget, which already has a deficit of 6.1% of GDP in 3 quarters of 2024. In order to avoid a debt spiral, the new administration will need to either reduce the cost of debt service, make up for lost budget revenues, or cut budget spending. Rate cuts are projected by the Fed for 2025 as low as 3%, but this may not be enough. In Q2 2024, the cost of servicing the federal debt was already 3.15% of the cost of debt, and with the deficit rising, it will likely continue to rise as well. Significant changes in monetary policy, including more aggressive rate cuts, will likely only be possible after Fed Chairman Jerome Powell leaves office, which will occur in 2026.

The new administration plans to generate additional revenue through overall economic growth and the introduction of foreign trade duties. Achieving growth above what the economy has shown so far will be quite difficult for a developed economy, and success here depends on too many hard-to-predict factors. A promising sector where the new administration may well achieve early success is residential construction. It's an underinvested area, where the net investment rate in 2023 was 23.2% lower than in 2022, and the number of new construction starts, according to the Census Bureau, was 1,353,000 in October 2024 – far less than at its peak in January 2006 (2,273,000), while the homeownership rate has since fallen from 68.8% to 65.9%. The contours of the new administration's construction policy have yet to be defined, but during the campaign, Trump said he was ready to remove most regulatory restrictions and privatize federal lands. Increased housing supply alone will not significantly increase economic growth, but housing affordability will affect the price of housing and therefore free up some disposable income for other spending, which will also have a positive effect on economic growth. In order to quantify this effect, more certainty is needed about what kind of measures the new administration will be able to implement.

As for trade duties, even during the campaign, Trump threatened to impose a general duty of 10% to 20% on all imports, and separately an additional 60% duty on all imports from China. The nomination of hedge fund head Scott Bessent as Treasury Secretary suggests rather that the duties, if imposed at all, will be introduced gradually to avoid sharp inflationary shocks. However, in whatever form the duties are imposed, they will primarily hit the American consumer because of the traditionally negative trade balance: the deficit in trade in goods and services amounted to \$221.78 billion in Q4 2023, \$240.98 billion in Q1 2024, and \$266.79 billion in Q2 2024. Unlike many other appointments, the new administration's economic bloc has significant financial experience, and it is likely that actual foreign trade policy will differ from the pre-election statements that US negotiators will try to use to improve negotiating positions in discussions with trading partners.

In turn, cutting discretionary budget spending (those programs whose funding Congress determines each year) could, hypothetically, keep the rising debt servicing costs under control, but that would require truly massive cuts to government programs, since most government spending – \$5 trillion of the \$6.8 trillion in fiscal 2024 – is mandatory, which is politically much harder to cut. To make such a change, Donald Trump and his advisers, most notably Elon Musk and Vivek Ramaswamy, whom he has chosen to make the government more efficient, will first have to win an apparatus battle against the Washington bureaucracy, which is hostile to both Donald Trump and his program.

Thus, the US economy is likely to maintain its fiscal dominance as well as higher inflation, which could be monetary or non-monetary, depending on what final form the new administration's policies take. The inflation tax will continue to reduce the real disposable income of the poorest, which is likely to prevent Republicans from retaining control over Congress in 2026. The new administration is probably aware of this, and will attempt to accomplish as much as possible in the first 1.5 years of office.

Japan

The main factor determining the structure and dynamics of the processes taking place in the Japanese business environment today is the ongoing restructuring of production and trade chains, which began with the restrictions that disorganized transnational economic ties during the COVID-19 pandemic and intensified as a result of the obvious aggravation of political contradictions between the Collective West, on the one hand, and Russia and China, on the other hand. For Japan's economy, which in the previous two decades had significantly increased its involvement with counterparties based in mainland China, rising tensions in Sino-US and Japan-China political relations have created many challenges, both technical and more fundamental in nature.

Japan's largest industrial corporations managed to include active work in China in their long-term strategies in the 2010s. And the current deterioration of the business environment in this segment, as well as the need to reassess the associated risks, has had a negative impact on their investment activity. Theoretically, this should have led to its reorientation towards domestic assets, but statistics have not yet reflected a surge in domestic investment in equipment and infrastructure. Despite active rhetoric on digital and green transformation, corporate investment activity during 2023 and Q1 of 2024 remained sluggish, which was also due to the modest size of public investment in those areas. Only in Q2 and Q3 of 2024 private investments in equipment showed a noticeable (more than 2% in real terms) increase compared to the corresponding quarter of the previous year. Given the decline in investment in real estate, this means that the expectation of a noticeable positive contribution of capital investment dynamics to economic growth is not yet justified: even against the background of increased production investment in March-September 2024, total expenditures on the formation of fixed capital in real terms amounted to slightly more than 101% of the corresponding expenditures in 2023⁵⁴.

The main element determining the growth dynamics of the Japanese economy in 2024-2025 is consumer demand. After several quarters of negative dynamics, it has been on an upward trajectory since the second quarter of 2024. This is attributed to a significant increase in wage rates during the labor contract renegotiation campaign for fiscal year 2024, as well as the effect of measures to support low-income families in the form of fuel subsidies and one-time payments in the form of financial aid or special tax exemptions. Higher inflation expectations also played a role, reducing the incentive to save current income.

All these factors, especially given the new stimulus package of budget support for families in need and small businesses approved in November 2024, are expected to affect the emerging picture of private consumption for at least a few more quarters, ensuring its steady increase.

As a result, Japan's GDP growth in 2025 will accelerate to 1.0-1.2% against 0.5-0.7% expected in 2024. At the same time, this will mean that the goal set 10 years ago of achieving sustainable self-supported economic growth of 2-3% per year remains unrealized and, apparently, needs to be rethought.

⁵⁴ Department of National Accounts. Economic and Social Research Institute. Quarterly Estimates of GDP: July–September 2024 (The First Preliminary) // Cabinet Office, Government of Japan. 2024. November. P. 2. URL: https://www.esri.cao.go.jp/jp/sna/data/data_list/sokuhou/files/2024/qe243/pdf/jikei_1.pdf (Accessed: 27/12/24).

The other task set a decade ago, namely: overcoming deflation, which was considered the key to launching the mechanism of mutually supporting growth of prices (with a target inflation rate of 2%), incomes, consumption and production, has been accomplished, albeit with a number of reservations. The main of these reservations is that the preservation of consumer inflation at the level of 2-3% in annual terms for the last 2 years is caused not so much by the policy of the monetary authorities, but by external factors, first of all, by the growth of prices on the world markets. Therefore, the current inflation can hardly be called manageable, and its parameters fixed by statistics can easily change in any direction. In addition, prices for goods that are not included in the base for calculating core inflation (fuel and food products that are not subject to long-term storage) are highly volatile and have a significant impact on consumer expectations and behavior, which complicates the task of maintaining positive economic dynamics.

As for the ongoing monetary policy of the Bank of Japan, its content has undergone significant changes in 2024. After 10 years of ultra-soft policy, when the Bank of Japan kept the yield on government bonds at the level close to zero by large-scale purchase operations, and the rates on excess deposits on commercial banks' accounts have been negative (-0.1%) since 2016, a gradual cautious correction of the policy has begun. In November 2023, the target yield band for long-term government debt bonds was adjusted upward by 1 p. p., and in July 2024, it was announced that the interest rate benchmark for short-term (“overnight”) money market loans would be raised from 0-0.1% to 0.25%, which is a very significant increase by Japanese money market standards.

Such adjustment of the targets was due to the need to neutralize the side effects of the soft monetary policy, which in recent years was in opposition to the restrictive line of central banks of other developed countries. In particular, it resulted in the depreciation of the yen in 2022-2023, which caused serious concern among businesses. Obviously, the increased interest rate differential between the Japanese and US money markets played a significant role in this decline, and the shift to tighter monetary policy could have reduced exchange rate volatility by delaying its depreciation.

Another undesirable consequence of the prolonged phase of the pro-inflationary course of the Bank of Japan was the accumulation on its balance sheet of more than half of all debt obligations issued by the government. Such volume of purchases of government bonds by the country's central bank cannot but introduce significant distortions in the stock markets, making it difficult to diagnose the state of public finances and plan for raising financial resources by the corporate sector. In July 2024, the bank's board of directors announced a “quantitative tightening” plan under which monthly purchases of government bonds on the central bank's balance sheet should be halved within 2 years.

Following its policy adjustment, the Bank of Japan focuses on maintaining a stable environment for corporate finance, promising to make policy changes only after making sure that they are “neutral” for key economic actors. In other words, the monetary authority promises to provide a sufficient measure of predictability in its policies to avoid discouraging corporations from formulating their long-term financial plans.

As for the budget policy, its priorities have not changed in recent years, and Shigeru Ishiba's first steps as the new head of Japan's largest political party and its government confirm the continuity of the policy in this part. On the one hand, government spending continues to appear in the form of regular stimulus packages, the main targets of which are vulnerable households and small

businesses suffering from price hikes and structural changes. And on the other hand – in the form of numerous state-funded programs related to digitalization, promotion of green technologies and use of local resources for regional development. The beneficiaries of the latter are, as a rule, local businesses, including the part of them that builds close ties with local politicians. Such programs traditionally include not only coverage of operating costs, but also a large investment component supported by targeted lending.

Finally, the wave of protectionism that has risen in recent years in the US and then in the EU countries has forced the Japanese government to allocate significant funds to subsidize its own production of microelectronic components and investments necessary for this purpose. This was done mainly in response to federal subsidies to US manufacturers of high-tech products in critical, according to government experts, areas, despite reasonable doubts about the effectiveness of such expenditures.

The previously outlined shift in the formulation of long-term goals of economic policy and economic development as a whole is being further developed. Instead of quantitative benchmarks of macroeconomic indicators, less specific but more fundamental concepts of social and environmental sustainability, innovativeness of the economy, increasing the value of human resources and comprehensive security are being brought to the foreground.

China

All the negative trends and risk factors for China's economy outlined in the 2024 forecast are generally still relevant today.

In the first 3 quarters of 2024, China's GDP grew by 4.8% (with growth of 5.2% in 2023). In Q3 2024, the growth rate slowed down to 4.6% – the lowest rate since Q1 2023.

China's economic activity is pressured by both cyclical factors – low consumer activity, the real estate market crisis, and a decline in foreign investment – and longer-term structural phenomena: an excessively high share of investment in GDP driven by high corporate and local government debt loads, rising youth unemployment, an aging and shrinking population for the second year in a row, and tensions with key trade and economic partners (the US and the EU).

According to a number of Western experts, China's economic model is increasingly showing signs of long-term unsustainability. This is mainly evidenced by the low level of consumer spending in GDP. According to the World Bank (WB), the level of household consumption in China is about 38% of GDP (for comparison: in the US – 68% of GDP).

Over the past few years, the Chinese government has tried to balance the problem of inadequate consumer spending by creating a giant bubble in the real estate market, and by disproportionately increasing credit and loans to businesses and citizens, resulting in a skyrocketing debt burden on the corporate sector and households.

In industry, 5 months in a row, from April to August 2024, a decline in production growth rates was recorded (in August – by 4.5%). Such dynamics has not been observed since the fall of 2021. But if then it was objectively explained by lockdowns under the policy of zero tolerance to the COVID-19 epidemic, now there are no such force majeure circumstances. The official Chinese Mass Media refer to a drop in demand and, as a consequence, in investment and business activity as the main reason. However, in terms of classical political economy, this phenomenon can be characterized as a contradiction between production and limited effective demand, which inevitably leads to an economic crisis.

Against this background, foreign companies are withdrawing their assets from China. In particular, foreign direct investment for January-September 2024 decreased by almost \$13 billion⁵⁵. From January to August 2024, FDI in the Chinese economy fell by 31.5% to \$81.7 billion. China's stock market has declined for the fourth consecutive year, having already lost more than \$6.5 trillion in capitalization after peaking in 2021.

In the first 9 months of 2024, the consumer price index (the main measure of inflation) rose by only 0.2% (the worst result since 2009), while the producer price index fell by 3% (the largest decline since 2015).

⁵⁵ Bloomberg News. Chinese Stocks in Hong Kong Fall as Fiscal Plan Fails to Impress // Bloomberg. 2024. 11.11. URL: <https://www.bloomberg.com/news/articles/2024-11-11/chinese-stocks-face-pressure-as-fiscal-stimulus-underwhelms?srnd=phx-markets&sref=Y0jVLcFo> (Accessed: 27/12/24).

Thus, China has actually entered the deflation zone. Deflation is one of the signs that China's economic model needs a full-scale restructuring. It also reflects weak domestic demand and excess production capacity.

A World Bank report on Asia notes that measures taken by the Chinese government to support the economy cannot substitute for the deep structural reforms needed for long-term economic growth.

S&P Global Ratings compares the current situation in China to the economic stagnation in Japan after the bursting of the real estate bubble in 1991. Recently, economists have increasingly pointed to the risk of “Japanization” of the Chinese economy, but at a lower level of the population's welfare. It is noteworthy that the Chinese authorities are trying to curb the perpetuation of this discourse in the Media and blogosphere.

Traditionally towards the end of the year, Beijing adopts a series of measures to stimulate economic activity and stabilize the financial sector in an attempt to meet its GDP growth rate target.

Specifically, in October 2024, as part of measures to reduce the debt burden of regions, the government approved raising the debt ceiling for local governments by RMB 6 trillion, to RMB 35.5 trillion, allowing them to refinance off-balance sheet or hidden debts over the next 3 years.

Issuers will also have access to an additional RMB 4 trillion of resources under a new special quota for refinancing debt within 5 years. This will, in particular, allow local governments to save RMB 600 billion on interest payments. Thus, in total, China is allocating RMB 10 trillion (\$1.4 trillion) for this purpose.

Starting in 2020, Beijing has authorized local governments to issue so-called special refinancing bonds to replace some of their hidden debts with official debt. These securities, issued by the governments of 29 cities and provinces, are approved at RMB 1.2 trillion for 2024, with RMB 2.2 trillion issued in 2023.

According to China's Ministry of Finance, hidden local government debts totaled RMB 14.3 trillion at the end of 2023. Beijing expects to reduce them to RMB 2.3 trillion by 2028.

According to the IMF, local government debt reached RMB 92 trillion, or 76% of China's GDP, in 2022, up from 62.2% in 2019.

According to estimates by leading US banks, the total amount of off-balance sheet government debt in China is between \$7 trillion and \$11 trillion. It includes corporate bonds of the so-called local government financing mechanisms, through which borrowed funds were actively raised to build infrastructure and finance local expenditures.

According to UBS Group AG, the total investment of Chinese banks in local government financing mechanisms at the end of 2023 was equal to \$6.9 trillion, accounting for about 13% of the total assets of the Chinese banking sector.

Economists estimate the most problematic part of the debt with a high risk of default at \$400-800 billion. At the same time, at least \$700 billion of refinancing is required to settle most of the problematic hidden debt.

In a negative scenario for local government debt, a hypothetical series of defaults could escalate into a nationwide financial crisis in case of a massive withdrawal of deposits from banks holding a large number of local government bonds. According to Wind, the latter account for nearly half of China's domestic corporate bond market.

In essence, the above measures imply debt refinancing rather than restructuring. Thus, most of the debt problems on the ground will remain. Extending debt repayments is likely to harm China's economic growth in the long run, as more budgetary resources will be needed to repay the debt.

In terms of monetary policy stimulus measures, the People's Bank of China (PBoC) prepared the largest package of measures since the COVID-19 pandemic based on easing credit conditions. In particular, in order to support the real estate market, the PBoC reduced the minimum down payment for the purchase of a second home to a record 15% from 20%. Earlier, in May 2024, the regulatory down payment for first-home mortgages was reduced to 15%.

The PBoC also lowered the interest rate on weekly reverse repo operations by 0.2 p. p. to 1.5%, and cut the reserve requirement ratio for banks by 0.5 p. p. to 9.5%, freeing up more than RMB 1 trillion for lending⁵⁶.

In May 2024, the State Council of the People's Republic of China together with the PBoC unveiled the largest real estate market support program. The goal of the program is to overcome the sharp market downturn by eliminating the excess of supply over demand (estimated at 25 months of future sales) and stabilizing prices.

At the first stage of the program, the PBoC allocated \$42 billion to support state banks' lending to local governments for buying back residential properties from developers for social housing. Experts estimate that under the program, the total amount of direct and indirect investment in low-liquidity residential real estate will reach several trillion RMB.

HSBC analysts link the support program with the simultaneously adopted long-term borrowing project of China: 30-year government bonds for \$138 billion in 2024 are issued within its framework.

As for current forecasts of economic growth dynamics in China, many financial institutions have revised their estimates after the publication of data on China's GDP growth rate in Q3 2024 (4.6%), which turned out to be the lowest since the beginning of 2023. Out of 74 leading think tanks tracked by Bloomberg, 51 estimate that China's GDP growth rate in 2024 will be below the 5% target. Among them, JPMorgan Chase forecasts 4.6% growth, Nomura Holdings – 4.5%, Goldman Sachs and Citigroup – 4.7% (previously – 4.9% and 4.8% respectively), UBS Group AG – 4.6% (previously – 4.9%), IMF – 4.8% (previously – 5%), WB – 4.8%, OECD – 4.9%.

In turn, the Reuters consensus forecast suggests a slowdown in China's economic growth to 4.6% in 2024 and 4.5% in 2025⁵⁷. Including for 2025, the WB improved its forecast to 4.3% from 4.1%, while the OECD kept it at 4.5%.

⁵⁶ Borovikova K. RMB – take as much as you can // Kommersant. 2024. 24.09. URL: <https://www.kommersant.ru/doc/7181678> (Accessed: 28/12/24).

An additional risk factor for the Chinese economy was the election of Donald Trump as the 47th President of the United States, who during his election campaign announced his intention to impose additional duties on Chinese goods ranging from 60% to 100%. In this regard, it can be predicted that the new administration of Donald Trump will impose additional tariffs on imports from China as early as 2025, but the cost scale of the expected decisions is still unclear.

Given the results of the US presidential election, UBS Group AG lowered its forecast for China's economic growth rate in 2025 to “about 4%” from 4.5%. Goldman Sachs kept its estimate at 4.3%, Citigroup lowered its forecast to 4.2% from 4.5%⁵⁸. The IMF kept its forecast at 4.5%. According to the Fund's assessment, the slowdown in China will be gradual, despite the continuing decline in the real estate sector and low consumer activity.

The Institute of Finance and Banking at the Chinese Academy of Social Sciences (CASS) forecasts that Beijing will again set a GDP growth target of around 5% for 2025.

At the same time, given the expected deterioration of the external political and economic environment in 2025, the Chinese government will be forced to strengthen the domestic component of the national economy, primarily by intensifying policies aimed at stimulating domestic demand and offsetting possible external shocks⁵⁹.

With government stimulus measures expected to be largely countered in 2025 by low consumer demand, a continued slowdown in the real estate sector, and fairly tight fiscal policy, China's GDP growth rate can be forecast at 4.1-4.5%.

The dynamics and structure of China's foreign trade in 2025 are expected to be adversely affected by tensions with the US and the EU, sanctions restrictions, the highly probable imposition of additional customs duties on Chinese exports and other trade restrictions, and the gradual shift of production chains to developing countries politically closer to the West.

Under the influence of unfavorable macroeconomic factors, the Chinese RMB is likely to devalue smoothly against the stronger US dollar. Through 2025, we can expect a domestic exchange rate in the range of RMB 7.3-7.6 per one dollar.

Deflation is highly likely to become a new extremely negative factor for the Chinese economy. The deflationary spiral is currently showing signs of escalation, inducing households to further reduce spending or postpone purchases in anticipation of further price declines. Thus, there are grounds for forecasting a further slowdown in the dynamics of consumer spending with a medium-term prospect of stagnation. In this case, corporate revenues will decline, which will lead to further cuts in salaries and hiring of new employees, and layoffs.

⁵⁷ UBS has lowered its forecast for China's economy for 2024-2025 // Finam. 2024. 29.08. URL: <https://www.finam.ru/publications/item/ubs-snizil-prognoz-po-ekonomike-kitaya-na-2024-2025-gody-20240829-1106/?ysclid=m35rdkevqa159725769> (Accessed: 28/12/24).

⁵⁸ Analysts have worsened forecasts for China's economic growth in 2024 // Nezavisimaya Gazeta. 2024. 17.09. URL: https://www.ng.ru/economics/2024-09-17/4_9095_news1.html (Accessed: 29/12/24).

⁵⁹ Jennings R. China's 2025 GDP growth forecast cut by UBS on Trump threat, others wait and see // South China Morning Post. 2024. 11.11. URL: https://www.scmp.com/economy/china-economy/article/3286060/chinas-2025-gdp-growth-forecast-cut-ubs-trump-threat-others-wait-and-see?module=perpetual_scroll_0&pgtype=article (Accessed: 29/12/24).

India

In 2025, GDP growth is projected to slow down slightly (to 6%⁶⁰). The entire set of challenges that the Indian economy has faced in recent years (labor surplus and hidden unemployment, transportation infrastructure and food security issues) will continue, with job shortages and low agricultural profitability remaining key issues.

New programs aimed at strengthening the welfare and competitiveness of certain groups and segments of the population may be launched. It is to be expected that special attention will be paid to rural issues: the election results in 2024 showed that the rural population is dissatisfied with Delhi's policies, in particular with its inability to cope with inflation. The government has already taken some measures: for example, in October 2024 it lifted the ban on exports of milled rice imposed in August 2022⁶¹. It has contained food inflation but caused discontent with Modi among some farmers whose livelihoods depended on selling rice to the foreign market.

With the continued decline in Western investment (FDI fell by 43% in 2023)⁶², the gradual easing of decoupling and concerns about Trump's future policies⁶³, India will encourage investment from regional (Arab and SEA) and external (Russia, possibly China) players, while continuing to look for opportunities to increase investment from the US, EU, Japan. In case these attempts fail, the government may move towards monetary reforms. If they are implemented, it is likely to be either at the beginning of the year to minimize their negative impact on the outcome of the fall elections in Bihar, or immediately after them.

The dynamics of trade with Russia will depend primarily on the volume of Western sanctions and their enforceability. So far, Indian businesses have invested relatively little in Russia for fear of secondary sanctions, which are being circumvented mainly through third countries. The problem with payments to major Russian exporters has been largely resolved for the time being; in the future, trade will continue partly in dollars circumventing sanctions, partly in rupees with their subsequent investment in joint projects in India. Currently, oil exports account for the lion's share of Russia's trade with India, which could reach \$70-75 billion by the end of the 2024/25 fiscal year. The transition to non-resource exports will require the creation of new production chains, the formation of which may slow down if the sanctions regime changes. India's position as an intermediary country that procures Russian oil, refines it and resells it to the West also depends on it.

⁶⁰ Trump, rupee and economic growth: What's in store for India in 2025? // The Economic Times. 2024. 18.11. URL: <https://economictimes.indiatimes.com/news/economy/policy/trump-rupee-and-economic-growth-whats-in-store-for-india-in-2025/articleshow/115409606.cms> (Accessed: 28/12/24).

⁶¹ India ends non-basmati rice export ban // Work-Grain.com. 2024. 10.03. URL: <https://www.world-grain.com/articles/20531-india-ends-non-basmati-rice-export-ban> (Accessed: 28/12/24).

⁶² Chitravanshi R. India sees 43 % decline in FDI inflows in 2023, drops to 15th spot // Business Standard. 2024. 20.06. URL: https://www.business-standard.com/economy/news/india-sees-43-fall-in-fdi-inflows-in-2023-drops-to-15th-spot-unctad-124062000868_1.html (Accessed: 29/12/24).

⁶³ Khan A. Why foreign investors are exiting India // The New Indian Express. 2024. 21.11. URL: <https://www.newindianexpress.com/explainers/2024/Nov/24/why-foreign-investors-are-exiting-india> (Accessed: 29/12/24).

Pakistan

Overcoming the protracted socio-economic crisis will remain the major challenge for Pakistan's elites. Such chronic problems of the Pakistani economy as budget deficit, high level of public external debt, low savings and savings rate, and high inflation will stay on the agenda.

The low probability of their resolution is due to the peculiarities of the Pakistani economy: the concentration of resources in the hands of a narrow stratum of elites, who are content to use rents to increase their own welfare⁶⁴, does not imply the creation of a favorable environment for sustainable economic development.

Under such conditions, the main means of maintaining macroeconomic stability will remain borrowing from allies (China, Gulf countries) and international financial organizations, primarily the IMF. Turning to the IMF remains the only means available to Islamabad to quickly resolve problems in the economy. In July 2024, the financial institution announced the allocation of another \$7 billion loan for Pakistan on the condition of continuing structural economic reforms. These include, for example, improving the efficiency of the tax system and eliminating subsidies to the energy sector.

Successful implementation of such reforms in 2025 may benefit Pakistan's economy only in the medium to long term. In the short term, however, such measures will hit ordinary households, which will further increase social tensions and, consequently, the risks of political instability.

Bangladesh

Due to domestic political turbulence in the country and inconsistent economic policies, the main challenges facing Bangladesh will intensify in 2024-2025. Negative trends in the development of the Bangladeshi economy were observed long before the protest movement for quota system reform in the summer of 2024: in January 2023, the IMF approved a USD 4.7 billion concessional loan⁶⁵.

Despite the stabilization of the situation by the interim government, the Bangladeshi economy will face a decline in foreign exchange reserves in 2024-2025 (in July 2024 alone, they fell by US\$1.3 billion to USD 20.48 billion; as of November 2024, the volume had fallen to USD 18.46 billion⁶⁶), decrease in the growth rate of the secondary sector of the economy, decline in FDI inflows (for fiscal year 2024, the volume of net FDI inflows decreased by 8.8%, from USD 1.61 billion to USD 1.47 billion⁶⁷), unwinding of the inflationary spiral (despite IMF forecasts that inflation would fall to 7.25% by the end of 2024, according to September 2024 data, it was 9.92%), and the problem of twin deficits, i.e. the persistence of the budget deficit combined with a widening current account

⁶⁴ *Vyacheslav Y. Belokrenitsky*. Pakistan's Economy – Reasons and Consequences of Slow-Motion Growth // World Economy and International Relations. 2024. Vol. 68. No. 3. P. 69–78. URL: https://www.imemo.ru/index.php?page_id=1248&file=https://www.imemo.ru/files/File/magazines/meimo/03_2024/08-BELOKRENITSKY.pdf (Accessed: 28/12/24).

⁶⁵ IMF agrees to provide Bangladesh with \$1.15B as 3rd installment of its multi-billion-dollar loan program // Anadolu Agency. 2024. 08.05. URL: <https://www.aa.com.tr/en/asia-pacific/imf-agrees-to-provide-bangladesh-with-115b-as-3rd-installment-of-its-multi-billion-dollar-loan-program/3213864> (Accessed: 28/12/24).

⁶⁶ Reserves drop below \$20b after ACU payment // The Daily Star. 2024. 13.11. URL: <https://www.thedailystar.net/business/news/reserves-drop-below-20b-after-acu-payment-3751161> (Accessed: 28/12/24).

⁶⁷ FDI drops by 8.8 % in FY24 amid economic volatility // The Business Standard. 2024. 30.10. URL: <https://www.tbsnews.net/economy/fdi-drops-88-fy24-amid-economic-volatility-979726> (Accessed: 28/12/24).

deficit. Additional factors destabilizing the Bangladeshi economy will remain: frequent flooding and the continuing influx of Rohingya refugees from Myanmar.

While the World Bank's June 11, 2024 Global Economic Prospects report forecast a slowdown in Bangladesh's economy growth rate to 5.7% in FY 2025⁶⁸, the October 10, 2024 South Asia Development Update lowered the expected FY 2025 growth rate for Bangladesh to 4% of GDP⁶⁹. Together, these negative trends have the potential to delay Bangladesh's planned transition from the least developed country group of the UN's income classification in 2026, as well as more ambitious programs to move to an upper-middle income country group by 2031 and to a high-income country group by 2041.

Bangladesh's trade dynamics with Russia are gradually stabilizing, as evidenced by progress in selected sectors (in 2024, Bangladesh became one of the top three importers of Russian wheat⁷⁰).

⁶⁸ Global Economic Prospects // A World Bank Group Flagship Report. 2024. June. P. 4.

⁶⁹ Office of the Chief Economist of the South Asia Region. South Asia Development Update: Women, Jobs, and Growth // The World Bank Group. 2024. October. P. 5.

⁷⁰ Russian wheat exports to Bangladesh up 42% in 9M – Agroexport // Interfax. 2024. 24.10. URL: [https://interfax.com/newsroom/top-stories/107022/#:~:text=Oct%2024%20\(Interfax\)%20%2D%20Russia,of%20Russian%20wheat%20in%202024](https://interfax.com/newsroom/top-stories/107022/#:~:text=Oct%2024%20(Interfax)%20%2D%20Russia,of%20Russian%20wheat%20in%202024) (Accessed: 28/12/24).

Reliability analysis of the forecast for 2023.

Forecasts for 2023 were developed in the fall of 2022 based on available data for the second and third quarters of 2022, i.e. under conditions of great uncertainty. The main problem in forecasting is to quantify the effect of those factors and trends that the authors take into account first of all. The IMF estimates (October 2022) and IMEMO RAS estimates (November 2022) presented in Table 17 turned out to be very close to the real growth rates of the world economy. This is evidenced by comparison of these estimates with the actual data published by the IMF in October 2023.

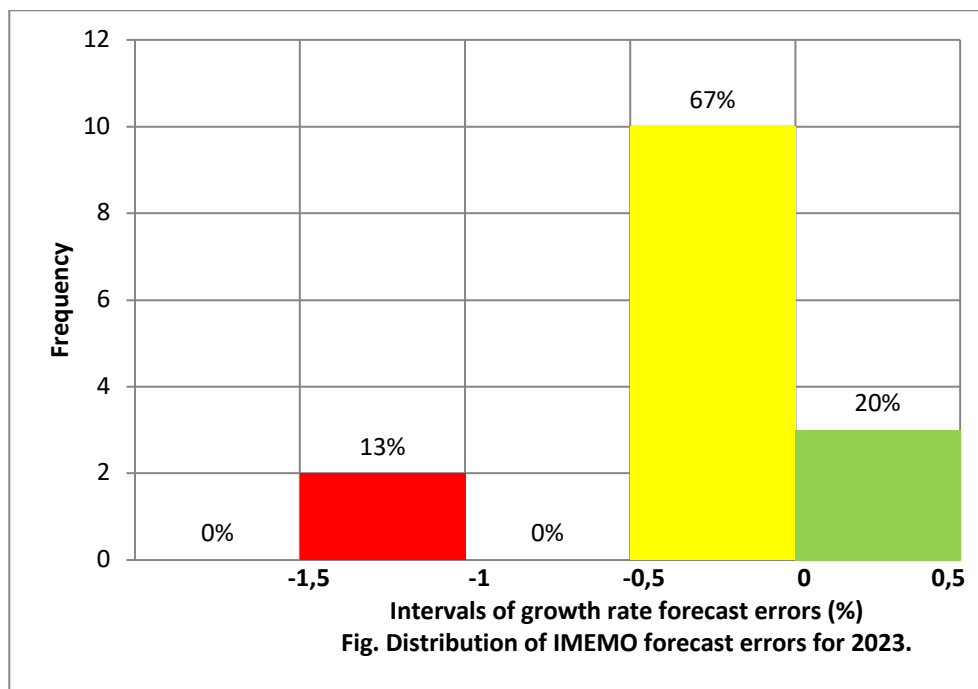
Table 17. Comparison of GDP growth rate forecasts with actual data for 2023

	IMF	IMEMO	Actual data
World	3,0	3,3	3,3
Developed countries	1,5	1,6	1,7
USA	2,1	2,5	2,9
Japan	2,0	1,7	1,7
United Kingdom	0,5	0,6	0,3
Eurozone	0,7	0,6	0,4
EU	0,7	0,6	0,6
Germany	-0,5	-0,4	-0,3
France	1,0	1,0	1,1
Italy	0,7	0,7	0,7
Developing and emerging market countries	4,0	4,2	4,4
China	5,0	5,1	5,2
India	6,3	6,8	8,2
Brazil	3,1	3,3	2,9
Russia	2,2	2,5	3,6

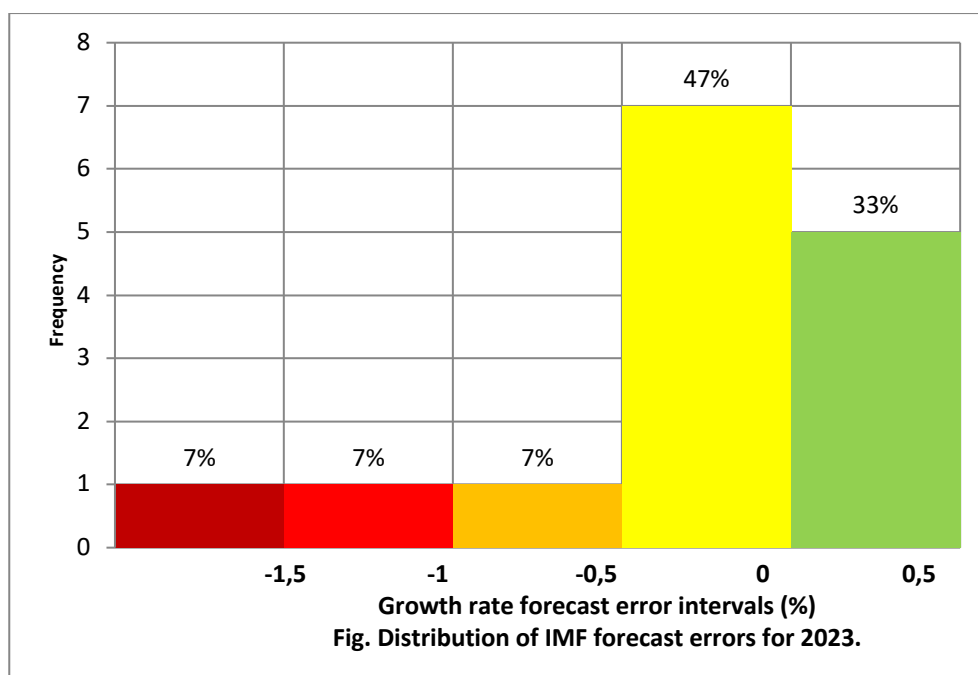
Deviations of forecast estimates from actual data are clearly visible on the histograms, where these deviations are indicated on the abscissa axis, and the percentage of estimates falling within the corresponding interval – on the ordinate axis (Histograms 1, 2).

These histograms show that both forecasts showed quite satisfactory accuracy, with the IMEMO forecast being more accurate. The maximum deviation of IMEMO forecast is 0.4 p. p., IMF – 0.3 p. p. The minimum deviation of IMEMO forecast is 1.4 p. p., IMF – 1.9 p. p. The histograms show that 13 IMEMO errors fell into the error interval -0.5...+0.5 and only 2 IMEMO errors fell into the interval 0...-1. In the interval of errors -0,5...+0,5 there were 13 IMF errors, 1 IMF error fell into the interval 0...-1 and one more IMF error was in the interval 0...-1,5.

Histogram 1. Distribution of IMEMO forecast errors for 2023



Histogram 2. Distribution of IMF forecast errors for 2023



Statistical analysis shows that the standard error of the IMEMO forecast was 0.124, while that of the IMF forecast was 0.110. The mean square of the IMEMO forecast error was 0.25 and that of the IMF forecast was 0.46. The mean absolute value of the IMEMO forecast error was 0.29, while that of the IMF forecast was 0.44. The above data indicate that under the conditions of high uncertainty in the prospects of the world economy development at the end of 2022 both forecasts turned out to be at a high level.

PART III

FOREIGN POLICY

UNITED STATES OF AMERICA

2025 is a year of great expectations for the USA. The triumphant victories of Donald Trump and the Republicans in Congress create a rare opportunity for the Republican Party and its leader to initiate serious changes in the country's domestic and foreign policy. The President and his party will have only one year and one chance. How they use it will determine not only the short-term, but also the medium-term vector of development of the United States.

The unambiguous mandate that Donald Trump received in the election, a party establishment that has significantly expanded with his supporters over the past four years, Republican control of both chambers, and public expectations all create favorable conditions for the new president to move from words to action. Among his multiple priorities are two key ones that will guide the rest of the Republican administration's actions in both domestic and foreign policy – reforming the bureaucracy and confronting China.

A new fight against bureaucracy

In 2024, Donald Trump, just like the first time, came to the White House on a protest wave. Citizens' dissatisfaction with the way their country is developing has remained consistently high throughout the first two decades of the 21st century, and trust in the federal government has been steadily declining. According to Gallup opinion polls, only 26% of citizens are satisfied with the state of affairs in the country – even less than in the crisis year of 2008 (28%)⁷¹. According to Pew Research, another leading public sentiment research center, citizen confidence in the federal government in 2024 hovered at 22%, also lower than at the height of the financial crisis (24%)⁷².

Just as in 2016, Donald Trump promises to regain the trust of citizens by fighting the federal bureaucracy. His first presidency did not bring any noticeable changes in the work of the federal government. This time, however, Donald Trump has made serious preparations: the Heritage Foundation, a think tank, has prepared a multi-page report, Project 2025, which details what and how the new president will reform. Although Donald Trump himself distanced from this tough conservative document during the election campaign, his first appointments show that the expert preparation of reforms was carried out not without reason. For example, Russell Vought, one of the report's authors, was nominated to head the Administration's key agency, the Office of Management and Budget (OMB), a position he had already tried in the first Trump administration.

The purpose of reforming federal agencies is to strengthen the President's control over executive structures, giving him back the right to dismiss and appoint officials and to distribute budget funds across programs and agencies in accordance with his priorities. At the same time, the reform involves not only shifting the balance between the President and the Congress, but also expanding the scope of responsibility of the states with respect to the federal government. To strengthen presidential control, Trump intends to convert tens of thousands of civil servants into political appointees so that they can be easily fired and replaced in case of insubordination to the head of the executive branch, while revising civil servants' salaries according to a single performance scale.

⁷¹ Essential Public Opinion Indicators for the 2024 US Presidential Election // Gallup. 2024. URL: <https://news.gallup.com/610757/2024-presidential-election-center.aspx#ite-610778> (Accessed: 12/12/24).

⁷² Public Trust in Government: 1958-2024 // Pew Research Center. 2024. 24.06. URL: <https://www.pewresearch.org/politics/2024/06/24/public-trust-in-government-1958-2024/> (Accessed: 12/12/24).

First of all, the power bloc – the Ministry of Justice, the Pentagon and the Federal Security Service, as well as the ministries of migration, education, health and internal affairs – will be subjected to reform. In the future, most of Washington's bureaucratic institutions will be audited and optimized.

The new administration's plan to expand US federalization involves massive cuts to the federal government's social programs and the transfer of authority to support citizens to state, city, and municipal levels. In particular, it can be expected with high probability that federal funding for low-income schools will be eliminated, school nutrition programs will be cut, the student loan forgiveness program will be halted, climate change will be de-prioritized, clean energy subsidies will be eliminated, federal regulation of health insurance programs will be curtailed, and federal spending on the poor will be reduced.

Optimization of the federal government and shifting responsibility to the state level will also be manifested in a review of the efficiency of foreign policy departments and expenditures. This will mainly be reflected in the curtailment of climate programs, and/or the termination of funding for various programs under the UN and other international organizations, the abolition of a number of positions established by the Biden administration in the State Department, and the reduction of development assistance programs. The main predicted trend in the distribution of US foreign aid will be a reduction in funding for region-wide programs in favor of country-specific and specific, measurable programs.

Increased efficiency of foreign policy will be expressed in cost optimization, accountability of investments, introduction of measurability of results of launched programs.

Tightening immigration regulation

As part of Donald Trump's reform initiatives, immigration law reform will be of independent public importance. The tandem of Thomas Homan and Kristi Noem, who were appointed to the key positions of Secretary of the Interior and Secretary of Homeland Security, respectively, to control the flow of entrants, testifies to the development of comprehensive measures to revise and tighten the migration legislation in the United States, which will be implemented no later than in the second quarter of 2025. It can be assumed that the tightening will take place in several key areas.

Firstly, border security actions. The construction of the wall with Mexico will be continued, some federal law enforcement bodies will be transferred to immigration enforcement, some military personnel will be redeployed to the southern border, border security with Canada and Russia will be strengthened, the Navy will enforce the so-called fentanyl blockade, and substantial financial resources will be allocated to the companies that provide advanced monitoring and other security technologies, such as CBP One programs.

Secondly, as part of tougher measures against irregular migrants, the funding and staffing capacity of Immigration and Customs Enforcement (ICE) will be expanded, fines for illegal entry and overstaying visas will be increased, and other prohibitions and restrictions will be renewed. The

number of refusals to process/extend asylum applications will rise manifold, and administrative pressure on the heads of asylum cities⁷³ will grow.

Finally, we can expect a serious loss of rights for legal immigrants and a reduction in federal funding for immigrant support programs. Priority will be given to immigration based on merit, positive contribution to society and the economy, without burdening the state; the introduction of a census on the health of the immigrant, on the number of dependents in his family is possible.

New struggle with China

Over the past 8 years, it has become clear that the struggle with China is not a temporary shift in US policy due to Trump's extravagant personality, but a long-term strategic vector for American leadership, about which there is bipartisan agreement across the country⁷⁴. While the specific steps Democrats and Republicans take to implement this strategy may differ, there are several common components: increased autonomy for domestic economic development, trade and economic competition, information and technology containment, forming anti-China alliances, and building relationships with other regions and countries with the Chinese factor in mind.

Increasing autonomy of the US economy

Donald Trump will continue the Biden administration's policy of boosting economic growth in order to return the country to a leadership position in industrial manufacturing⁷⁵. Tax reform, revision of antitrust laws and energy and climate policy, and liberalization of government procurement rules for the military-industrial complex are on the priority list that the Trump administration will start implementing as early as 2025. It is proposed to lower the federal corporate tax rate from 21% to 20%, and even lower – to 15% for companies that manufacture their products domestically. Tax measures expiring at the end of 2025 will also be extended.

As part of the Energy Dominance doctrine, Trump intends to pursue a principle of combining the objectives of “energy realism and climate pragmatism.” Trump has repeatedly promised to withdraw from the Paris Agreement and is likely to pay less attention to global climate initiatives, reallocating part of the resources spent on the development of renewable energy technologies in favor of shale oil and LNG. At the same time, he is unlikely to abandon Biden's investment initiatives totaling \$3 trillion.

Trump has argued that he remains open to electric vehicle production in the US, but also intends to reduce or eliminate tax incentives for electric vehicle buyers, which could have an overall negative impact on the already slowing US transition to electric vehicles.

⁷³ About 200 cities and counties in the US that are unwilling to cooperate with Immigration and Customs Enforcement in locating and extraditing illegal immigrants.

⁷⁴ National Security Strategy of the United States of America // The White House. 2017. December. URL: <https://trumpwhitehouse.archives.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf> (Accessed: 12/12/24).; National Security Strategy of the United States of America // The White House. 2022. October. URL: <https://www.whitehouse.gov/wp-content/uploads/2022/10/Biden-Harris-Administrations-National-Security-Strategy-10.2022.pdf> (Accessed: 12/12/24).

⁷⁵ *Savage C., Swan J., Haberman M.* A New Tax on Imports and a Split from China: Trump's 2025 Trade Agenda // The New York Times. 2023. 26.12. URL: <https://www.nytimes.com/2023/12/26/us/politics/trump-2025-trade-china.html> (Accessed: 12/12/24).

Restrictions on drilling on federal lands will be eased and the stage will be set for accelerated modernization of energy infrastructure – pipelines, LNG export terminals, and nuclear, hydrogen, and energy storage facilities⁷⁶. Washington will launch a program to triple nuclear power production by 2050. This will allow the US to intensify the presence of US business in the NPP equipment market, where US companies have technological competencies.

There will be an increased focus on advancing innovation, including in key areas such as artificial intelligence (AI), blockchain technology, innovative semiconductors, unmanned vehicles and UAVs. Trump intends to rescind Biden's executive order on managing the national security risks posed by the introduction of AI, which the new administration believes hampers the innovation process.

Import substitution will be accelerated to “completely eliminate dependence on China in all critical areas,” encourage companies to produce innovative goods in the US, diversify supply chains, and address issues of overcapacity across the globe⁷⁷. A four-year plan has been announced to phase out imports from China of a range of goods from electronics to steel and pharmaceuticals.

Trade, economic and technological competition

In the foreign economic arena, the new administration is preparing to pursue an even more aggressive policy of “economic nationalism” than Biden's policy in confronting China, declaring the willingness to bear short-term political costs for strategic gains. The US will adhere to the transactional approach in trade negotiations, shifting the focus to bilateral agreements that will concentrate on unresolved tariff issues, market access problem and equalization of the US trade balance. At the same time, Trump will continue to insist on reforming the WTO and a number of other international organizations and agreements in accordance with US standards. He also promised to make cryptocurrencies a key element of his trade strategy, create strategic bitcoin reserves and attract a large number of mining companies to the US.

One can expect a new tightening of export control regulations on China's technology and manufacturing sectors to limit its capabilities in AI, quantum computing, and the production of advanced graphics processors, unmanned vehicles, and lithography equipment.

A mechanism is being developed to gradually increase duties in response to what the US considers to be China's deliberate devaluation of its currency and unfair trade practices. Trump has repeatedly stated his intention to impose an additional tariff on imports from China at a rate of 60% (a rate of 20-40% is considered more realistic). The tariff rate may even increase to 200% if China launches active measures against Taiwan. Trump also threatened to increase duties on electric cars from China by 100%, if their supply to the US in significant quantities is established⁷⁸. The main

⁷⁶ *Schadlow N.* How America Can Regain Its Edge in Great-Power Competition: A Second Trump Term Would Require a New Strategy // Foreign Affairs. 2024. 09.10. URL: https://www.foreignaffairs.com/united-states/how-america-can-regain-its-edge-great-power-competition-trump?s=ESPZZ004NX&utm_medium=promo_email&utm_source=edit&utm_campaign=special_send_election24_prospects&utm_content=20241106&utm_term=ESPZZ004NX (Accessed: 15/12/24).

⁷⁷ *Huld A., Zhou Q.* Trump 2.0: What Does it Mean for China? // China Briefing. 2024. 07.11. URL: <https://www.china-briefing.com/news/trump-china-us-relations-2024-election-victory-implications-businesses/> (Accessed: 15/12/24).

⁷⁸ *Singleton C.* Donald Trump Changed the Game with China. Now He Could Win It // The New York Times. 2024. 14.11. URL: <https://www.nytimes.com/2024/11/14/opinion/china-trump-us-rivalry.html> (Accessed: 15/12/24).

objective of the draconian tariffs is to reduce the trade deficit and create leverage in the negotiation process to force China to unilaterally remove existing barriers to imports of US goods.

If Trump's tariff plan is implemented, the average level of US customs duties could rise from 4% to 20%, bringing the country back to levels of domestic market protection not seen during the entire post-war period. However, the tariffs are not expected to be implemented until the second half of 2025 because of concerns about accelerating inflation. Duty increases are likely to be phased in rather than fully implemented and selectively applied to different goods. Exceptions, postponements, and in some cases only the threat of duties may be made for goods that are critical to US domestic production.

In the negotiation process with China, the US side will try to move beyond tariff and export control discussions and shift the focus to discussing US claims regarding human rights in the Xinjiang Uyghur Autonomous Region, the situation with Taiwan and Hong Kong, and China's role in smuggling fentanyl into the US. Even before the election, Trump's supporters declared China a currency manipulator and prepared Restoring Trade Fairness Act, which, if approved by Congress, which seems unlikely so far, would deprive China of the most favored nation treatment in trade with the United States. It is also stated that the country's status in the WTO and other IEOs should be reviewed. The rules for investing in China's innovative enterprises and the conditions for Chinese companies to buy assets whose ownership “threatens the national and economic security” of the United States may be revised. It is planned to allow only those investments “that clearly serve US interests”. Trump also intends to prohibit federal agencies from entering into procurement contracts with companies investing in manufacturing in China. Only US companies that are least integrated into global supply chains involving Chinese companies, such as in mining and textiles, as well as US partners such as Mexico, which is already the second-largest buyer of US goods, Vietnam, Canada, and India, could benefit from these actions by Washington.

The imposition of increased tariffs in conjunction with other restrictions could be sensitive to the prospects for the development of US foreign economic relations with China. The main result of increased pressure on Beijing could be a huge reduction in the volume of bilateral trade and investment. And this is while China's share in US imports has already fallen from 20% to 13% over the past six years⁷⁹. In response to Washington's actions, Beijing has developed a proactive strategy to counter US protectionist measures based on stimulating domestic demand, import substitution and supply chain diversification. It can also be predicted with a high degree of probability that the application of Trump's comprehensive tariffs will lead to an increased interest of US allies to cooperate with China, with all the aggravating consequences for the allied relationship. The likelihood of retaliatory measures to defend against Washington's economic coercion will increase.

There is reason to believe that Washington will show flexibility in dealing with complex trade and political issues. It is possible that, while continuing to increase pressure on Beijing, Trump will promote a plan to stabilize bilateral trade, which would include new concessions from Beijing in exchange for tariff exemptions, including a promise to resolve the trade imbalance, as well as commitments to buy more US LNG and agricultural products. Trump, for example, changed his

⁷⁹ Liu J. China Is Armed and Ready for Trade War 2.0 With Donald Trump // CNN. 2024. 22.11. URL: <https://edition.cnn.com/2024/11/22/business/china-is-armed-and-ready-for-trade-war-2-0-with-donald-trump/index.html> (Accessed: 17/12/24).

mind on the Chinese social networking giant TikTok and promised to protect this company from the threat of banning its activities in the United States. The Chinese leadership, in turn, declared its readiness to “expand cooperation and manage differences” because “neither decoupling nor supply chain disruption is a solution”⁸⁰.

Forcing allies and partners to anti-China measures

In its confrontation with China, the United States assigns a serious role to its allies. However, while Biden tried to provide an ideological basis for coordinating the policies of partners in order to motivate them to implement anti-China measures that were not always profitable, Trump intends to get the necessary policies from allies using the same methods of pressure that the US applies to China - tariffs and duties. The most problematic component of Trump's action plan may be the introduction of a comprehensive tariff on imports from most countries of the world in the amount of 10% or more, which is regarded by a number of US partners as evidence of an emerging shift towards a reassessment of relations with allied countries. In particular, Trump believes that European countries should unconditionally support the US anti-China policy by putting a barrier to imports of Chinese electric cars, batteries, as well as equipment and materials to promote renewable energy. At the same time, he ignores warnings from EU countries that the imposition of comprehensive tariffs could be seen by allies as a violation of US commitments to the WTO and their free trade area partners. As part of its policy of protecting the domestic market, the Trump administration is quite likely to be willing to use tariff restrictions as a tool to regulate imports of European products as well. This includes the automotive and aircraft industries (a return of the Boeing-Airbus controversy cannot be ruled out).

The US-EU Global Agreement on Sustainable Steel and Aluminum, a treaty that regulated US duties on not only these two but also several other categories of goods, expires in 2025 as well, which could prove to be another point of potential rise in controversy.

The US will seek to maintain its control over Europe in the area of energy security. This will favor further spillover of European startups to the US territory, growth of incoming European FDI in finance, chemical industry, microelectronics, artificial intelligence and information and communication technologies⁸¹.

Special attention will be paid to measures to stop the re-export of Chinese goods to the US via third countries. Trump has threatened to impose a tariff of 25% to 100% on imports from Mexico if that country does not curb illegal migration and smuggling of drug precursors into the US and take preventive measures against the expected increase in Chinese car shipments through its territory. With more than 80% of Mexico's exports going to the US, Trump will try to take advantage of the upcoming US-Mexico-Canada Agreement (USMCA) renegotiation date to make a “much more profitable deal.” Trump is also ready to impose sanctions on Taiwan, accusing Taipei of dominating the semiconductor market, “stealing” US jobs, and not being proactive enough in expanding US arms purchases.

⁸⁰ Leonard J. Xi Says China Is Ready to Work with Trump to Boost Relations // Bloomberg. 2024. 07.11. URL: <https://www.bloomberg.com/news/articles/2024-11-16/xi-says-china-is-ready-to-work-with-trump-to-boost-relations?srd=homepage-europe> (Accessed: 18/12/24).

⁸¹ Europe – International Trade and Investment Country Facts // Bureau of Economic Analysis. URL: <https://apps.bea.gov/international/factsheet/factsheet.html#399> (Accessed: 18/12/24).

Strengthening regional alliances

In the logic of the confrontation with China, the new administration should be expected to maintain its policy of further strengthening regional alliances. Like his predecessor, Trump will support existing alliances and expand security partnerships in line with China's growing military capabilities. The key role in the Asia-Pacific region will be given to cooperation with India, Japan and Australia within the framework of QUAD and with the UK and Australia within the framework of AUKUS.

US unequivocal support for Taiwan and opposition to a perceived Chinese military threat to the island will remain. Taipei will remain a major regional ally of Washington, receiving US arms by status of a major US ally outside NATO, and playing a key role in the global semiconductor manufacturing market.

Also in the logic of anti-China strategy, the United States will largely consider alliances with other **South and Southeast Asian countries**. In the context of restructuring regional economic relations, India will retain its central place for the United States as the main alternative economic partner to China. However, it remains difficult to predict a qualitative transition of US-India relations to a new level due to the opportunistic nature of their current development in the context of the anti-China agenda. The potential increase in Washington's pressure on New Delhi due to economic and military cooperation with Moscow is still fraught with India's distancing from the United States and, accordingly, undermining the goals of the US anti-China strategy.

The intensity of interaction with it, as well as with Bangladesh and Sri Lanka, will depend on the alignment of these countries' policies with the United States in countering China. Washington's policy will be aimed at promoting the countries' economic independence from Beijing and spreading the image of China as a hostile force in the region. In this context, Trump's reconsideration of the India-Middle East-Europe Economic Corridor (IMEC) project cannot be ruled out.

Donald Trump is very likely to revise his policy toward the **European Union**. Without the ideological component of the Democrats, it will be more difficult for him to balance the pressure on his allies to form a united anti-China front: excessive pressure may push them toward China and strengthen the sentiments of some countries to build strategic autonomy for the EU. However, it is very likely that Trump will not give up “punitive measures” against allies, partly on the basis of the policy of protecting the domestic market.

In addition to pressure on allies and raising tariffs, one can expect Washington to refocus on those European countries whose leaders are more sympathetic to the new administration, as well as to create new coalitions aimed at strengthening interstate relations rather than pan-European ones. First of all, this process will affect the countries of Central and Northern Europe, and despite the fact that Trump is not inclined to consider the Balkans as a strategic priority region, the new White House team may make certain steps towards the development of relations with them in order to offset the long-term growth of Beijing's influence there.

Despite possible disagreements, US-European military cooperation will continue to strengthen. At least 10 joint military drills are planned for 2025, including in the Baltic and Scandinavia, in the Black Sea with Ukraine, as well as in Romania, Germany, the Netherlands, and other EU countries. The NATO Summit, scheduled to be held in the Netherlands at the end of June 2025, should confirm the success of the Organization's enlargement with Finland and Sweden. Trump will actively promote the topic of increasing the share of expenditures of European NATO allies, but despite his harsh rhetoric and tense relations with the leaders of other member states, the US will reaffirm its status as the dominant power in the Alliance. Regardless of the situation in Ukraine, its members will try to create at least a semblance of a common agenda and the ability to make consolidated decisions, as it was during Biden's presidency.

China's factor in politics in other regions of the world

US policy in **Central Asia**, which has serious tactical significance for the United States in the context of countering Russian and Chinese influence, will retain considerable continuity and subordination to extra-regional imperatives. Over the past decade, the US has been remarkably consistent in its engagement in the region, despite the succession of three presidential administrations of different political parties⁸². It is very likely that Central Asia will remain in focus of US foreign policy aimed at curbing China's expansion in the world in 2025 as well⁸³. The policy will be based on neutral-positive practices of interstate political and diplomatic interaction within the framework of the C5+1 format, development of trade and economic relations, including the exchange of information on compliance with the sanctions regime against Russia, maintaining a favorable climate for US investments, primarily in the fuel and energy complex of Kazakhstan. It is possible that the United States will take a more active role in the development of the Trans-Caspian International Transport Route project to strengthen logistical links between the countries of Central Asia and Transcaucasia, bypassing Russia. It is also highly likely that the United States will make significant lobbying efforts to promote the construction of its nuclear power plant project in Kazakhstan.

With regard to **Afghanistan**, one should not expect a radical change in Washington's political line. The potential building of a diplomatic dialog between the new administration and the Taliban movement will primarily depend on the US strategic imperatives in the neighboring regions. At the bilateral level, one should probably expect a review of the migration programs launched by the US government to support Afghan refugees who were previously associated with the country's former republican government and cooperated with US forces.

The Palestinian-Israeli conflict will remain the focus of US **Middle East** policy. It is highly likely that the Trump administration will take a tougher pro-Israeli stance, the main task of which will be to combat threats to the ally from the territories of the Gaza Strip and Lebanon. The long-term goal of diplomatic recognition of the state by other countries in the Middle East (promotion of the

⁸²Central Asia: Implications of Russia's War in Ukraine Central Asia: Implications of Russia's War in Ukraine // CRS. 2023. 09.06. URL: <https://crsreports.congress.gov/product/pdf/R/R47591> (Accessed: 18/12/24).

⁸³Central Asia Pivot // International Trade Administration. 2022. 19.05. URL: <https://www.trade.gov/market-intelligence/central-asia-pivot>; The Future of Central Asia's Development: Between Russia and China // The US Department of State. 2023. 02.05. <https://www.state.gov/the-future-of-central-asias-development-between-russia-and-china/> (Accessed: 18/12/24).

Abrahamic Accords) will be a much more difficult task under such prioritization. Its future will depend primarily on whether a Republican administration will and can articulate its long-term plan for aid to the Palestinians with the prospect of operationalizing the principle of “two states for two peoples”.

Reanimation of the anti-**Iran** strategy of the first term of Donald Trump's presidency is unlikely. Beyond the use of military measures, the United States has few serious levers of pressure directly on Tehran. The tasks of containing Tehran's influence in the region and the development of its missile and nuclear programs will be solved by non-forceful means (primarily sanctions) in order not to aggravate military escalation in the region, as this would primarily threaten Israel's security and increase the risk of the need for direct American involvement in the conflict.

The rest of the regional agenda will be of a secondary nature and will most likely be considered in the logic of countering China's expansion. In this regard, US-Saudi relations may gain significant momentum. Saudi Arabia is one of the largest markets for US arms, and until recently it had legal agreements (1974 treaty) obliging the Kingdom to sell its oil exclusively for US dollars. Riyadh's role as a key oil supplier to China, its ability to influence the global energy market, and the likelihood of diplomatic recognition of Israel greatly increase the probability that the Donald Trump administration will seek to secure long-term arrangements with Saudi Arabia to address global strategic goals of US foreign policy.

US policy toward the **Ukrainian conflict** will also be shaped by the anti-China vector. It is highly likely that a change of administration in the White House will facilitate the start of negotiations between Moscow and Washington and lead to a change in the dynamics of the crisis. Nevertheless, escalation is as likely as de-escalation. The objective, openly declared by Donald Trump is to relieve the US of the burden of this conflict. Unlike the Democrats, the new president is not very concerned about the ideological component of this conflict, so he is not tasked with supporting military action until Ukraine is victorious. But his goal to quickly wind down the conflict, which is “costly” for the United States and distracts attention from China, so far means only his willingness to shift the burden of the conflict onto the shoulders of European allies, and not at all agreement with Russia's plans. Donald Trump's general declared approach of promoting peace between Ukraine and Russia and focusing US resources on countering China may in practice result in a potential increase in arms supplies to Kiev and an even tighter sanctions regime against Moscow.

In general, US relations with **Russia** will continue to follow the logic of the Ukrainian conflict. It is unlikely that in 2025 Donald Trump will be ready to bring something new to the relations between the two countries and initiate the restoration of dialog, at least due to the inertia of the military phase of the confrontation in Ukraine. Washington's bipartisan perception of Russia as an adversary will not change with the appearance of a new president in the White House. Moreover, strategically, the United States has not yet determined what place Russia will occupy in its policy of global confrontation with China and whether the US is ready to be friends with one adversary against the other. So far, the logic of simultaneous confrontation with two regional powers at once remains, within the framework of which the military-political bloc of the federal government and the military-industrial complex functions: goals are set, funds are requested, and contracts are signed.

The **African dimension** of US foreign policy has a limited potential for increasing its significance in the upcoming year, even in the context of containing China's expansion. The lack of serious progress in the implementation of US strategic plans will prompt the new administration to reconsider its approaches to policy in the region, but the presentation of a qualitatively new detailed strategy in the first year of the presidency is highly unlikely. Given the degradation of US relations with a number of African countries, the loss of strategic positions and an increase in the overall level of conflict in the region, it is expected that in 2025 the funding for “unproductive” foreign aid programs will be reduced and the initiative to increase the accountability of US investments in sub-Saharan Africa will be restarted. At the same time, it is not excluded that Trump will take a number of tactical steps to normalize relations with the countries of the region in order to restore dialogue and improve the quality of US intelligence capabilities in the region.

As part of the G7 Partnership for Global Infrastructure and Investment (PGII), the African Virtual Investment Platform (AVIP) to collect data and information and improve investment policies will be launched in some African countries next year (with the intention of covering the entire continent)⁸⁴. In addition, we can expect the new administration's support for cross-border transport corridors, as well as Italy's proposed AI Hub for sustainable development in cooperation with the United Nations Development Program (UNDP), including with a view to prevailing over China in the world-changing technology race.

US policy toward **Latin America** in 2025 will combine two contradictory trends. On the one hand, the US will encourage countries to take measures in the area of migration legislation, drug (fentanyl) nonproliferation, and curbing organized crime. US policy expressed in ultimatum form may reduce the quality of diplomatic interaction with Mexico and the Caribbean countries⁸⁵. Ultimacy, for example, is reflected in plans to withhold at least 30% of total financial assistance to Mexico in FY2025 until the country adopts a series of measures to counter the spread of fentanyl. On the other hand, the increased importance of the region in the context of containing China may increase Mexico's and other Latin American countries' share of trade with the United States.

As for the **Arctic**, unlike in his first term, Donald Trump is very likely to continue the course of the previous administration, including the production of icebreakers under the trilateral ICE Pact involving the United States, Canada, and Finland. It is intended to provide \$1 million to support the Arctic Council Secretariat, US-based Arctic Council Permanent Participants, and Arctic Council programs, as well as further strengthen agreements with the Scandinavian countries and Canada to counter Russia-China strategic partnership in the region.

⁸⁴ Fact Sheet: Partnership for Global Infrastructure and Investment at the G7 Summit // The White House. 2024. 13.06. URL: <https://www.whitehouse.gov/briefing-room/statements-releases/2024/06/13/fact-sheet-partnership-for-global-infrastructure-and-investment-at-the-g7-summit-2/> (Accessed: 19/12/24).

⁸⁵ Immigration and Border Security // Council on Foreign Relations. 2024. 26.11. URL: <https://www.cfr.org/election2024/candidate-tracker/immigration-and-border-security> (Accessed: 19/12/24).

EUROPE

European Union — 2025

By the beginning of 2025, three factors determine the overall picture of the political landscape in the EU:

- the outcome of the 2024 elections, both for the European Parliament and in the EU Member States;
- public sentiment, which occasionally erupted into protests and violent excesses caused by external crises and conflicts, such as the attack on Israeli fans in Amsterdam or mass protests by Polish farmers blocking roads for agricultural exports from Ukraine;
- at the same time, as sharp debates in the ruling and expert circles of Europe on the eve of and immediately after the elections in the US show that the coming to power in the USA of the Trump administration will have an even greater impact on the political life of the EU in 2025.

European Parliament

The elections recorded a less dramatic than expected but continuing shift to the right. In the European Parliament (EP), the European People's Party (188) and Euroskeptic factions have strengthened their positions, and there has been a move to the far right in some parties within the EPP itself. The elections also demonstrated further fragmentation of the EP. The European People's Party and the Progressive Alliance of Socialists and Democrats (136), which is slightly losing support, retained the first two places. The European Conservatives and Reformists (78) and the faction Renew Europe (77) worsened their positions, the most sensitive losses of the EU citizens' votes were suffered by the Greens – European Free Alliance (53), the Unified European Left Group (46 deputies) slightly improved its performance. The European Conservatives and Reformists faction has 78 seats in the new parliament. Two new factions were formed in the EP: Patriots for Europe (84 MPs), which united moderate Eurosceptics and is quite influential, and whose backbone was made up of MPs from the Rassemblement Nationale (France), Fidesz (Hungary), and Liga (Italy), and a small political group, Europe of Sovereign Nations Group, which included 25 MPs – radical Eurosceptics, most of whom represent Alternative for Germany.

The results of European elections in general (except for Italy and France) correlate with political trends and outcomes of national elections in EU member states.

It can be argued that the shift of the EP to the right consolidated the right turn that had already taken place in the European Council and contributed to a more right-wing composition of the European Commission compared to the previous one. It is obvious that the decisions of the center-right bloc in the EC and the European Council will be supported by the right-wing majority in the EP. At the same time, given the relative weakness of the “grand pro-European coalition” of the three leading forces in the EP (EPP, Progressive Alliance of Socialists and Democrats and Renew Europe), the increasing politicization and fragmentation of the EP will generate disagreements and open conflicts both at the pan-European, national and sub-national levels.

As for the key priorities of the new EP, there are three of them: the environment, security and defense (where the EP's powers have been significantly increased) and debates on the future of a united Europe. At the same time, the understanding of the goals and objectives of the climate agenda and the environment has changed. Green parties were the main losers in the EP elections. Green Deal and the main related legislation that has already been passed will remain, but the protection of the interests of farmers and the EU car industry will cause a revision of the most ambitious goals of the EU climate strategy, as well as the expenditures of the EU common budget for these purposes.

Given the influence of Euroskeptics, including hardliners, in the new EP, as well as plans for further enlargement of the EU to include Western Balkan and post-Soviet countries, one should not expect a serious development of European integration “in depth”. However, external factors may prove to be a trigger for the opposite trend, although it is difficult to say whether the policy of the new US administration or the end of the conflict in Ukraine, which the EU may consider as threats to itself, can be called such a trigger.

Despite an increase in the number of EP deputies from radical right-wing and extreme left-wing political forces, which are generally considered to be sympathetic to Russia, in security and defense issues the new European Parliament advocates continued support for Ukraine and takes an increasingly tough stance towards the Russian Federation, including against the background of the results of the US presidential election and the imminent inauguration of Donald Trump. The leading factions of the EP, supported by the Greens, will advocate for a more focused and large-scale EU defense policy.

Given the anti-immigrant discourse actively promoted by right-wing parties, migration regulation and the EU's overall migration policy will remain on the agenda of the new EP. The EU cohesion policy and especially its targeting will require obvious attention, taking into account not only sectoral specifics (disagreement of enterprises and agricultural workers with the EU climate policy), but also the specific geography of Euroskeptical sentiments in the Union, as shown by the new composition of the European Parliament, which is already reflected in the expert opinions of the European Commission of the last convocation⁸⁶.

Germany

In November 2024, Germany's ruling coalition collapsed, so Bundestag elections will be held in February 2025. Probably, the best result will be obtained by the Christian Democratic Union/Christian Social Union (CDU/CSU) party bloc, which will lead the ruling coalition. The Social Democratic Party of Germany (SPD) may become the junior partner. For the smaller parties – the Free Democratic Party (FDP), the Left, Sahra Wagenknecht's Union (BSW) – there is a risk of not passing to the Bundestag. Friedrich Merz is likely to become the new chancellor; under his leadership, the domestic political and economic course of the FRG will shift to the right.

⁸⁶ Forging a sustainable future together: cohesion for a competitive and inclusive Europe: report of the High-Level Group on the Future of Cohesion Policy // Publications Office of the European Union, European Commission, Directorate-General for Regional and Urban Policy. 2024. February. URL: <https://data.europa.eu/doi/10.2776/974536> (Accessed: 19/12/24).

The right-populist Alternative for Germany (AfD) will retain its influence and could become the largest opposition force in parliament. The high results in 2024 of the AfD and BSW will make it difficult to form governing coalitions at the federal and regional levels. In 2025, the problems of forming governments in the eastern states of Saxony and Brandenburg will persist. In Thuringia, a new government will be formed, but it will be unstable due to the large differences between the CDU/CSU, BSW and SPD parties.

Economic growth rates in the Federal Republic of Germany will remain low. In this regard, budgeting will be a challenge for the new coalition. The government is likely to implement reforms aimed at improving economic efficiency, develop measures to reduce taxes, as well as reduce spending on social sphere and environmental initiatives. Berlin will not reduce military spending, The Bundeswehr special fund for modernization will continue to operate. Against the background of a low start there will be a slight increase in the production capacity of artillery shells, air defense (IRIS-T SLM). However, a serious increase in the capacity of the German military industry is not expected.

The FRG will tighten its policy of curbing illegal migration (control at the borders, facilitating expulsions) and will continue the practice of attracting skilled labor under bilateral agreements from other countries (Uzbekistan, India, Kenya). The reception and assimilation of Ukrainian refugees will remain favorable, and programs preparing Ukrainians for the German labor market will be continued.

The main challenge for Germany's *foreign policy* will be building relations with the US. The main contradiction will be the possibility of imposing 10-20% US duties on European imports, especially German cars. Berlin and automobile concerns, as in 2016, may try to convince Donald Trump not to impose duties in return for concessions from the German side. The second issue will be the confirmation of US security guarantees to European NATO allies and the continuation of aid to Ukraine.

But despite a number of contradictions with Donald Trump, the importance of transatlantic relations will remain a constant for Germany. In the security sphere, transatlantic ties will only strengthen: the US 2nd Multi Domain Task Force will continue to be deployed in the FRG, the German defense industry will be integrated into the US arms production chain (expansion of the production of PAC-2 GEM-T missiles for the Patriot system, etc.).

Commitment to European integration will remain an imperative of German policy. However, Berlin will not be ready to support in all matters Paris's course of strengthening strategic autonomy and integration of procurement and military production of EU member states. The German air defense and missile defense European Sky Shield Initiative, which France has not joined, will continue in 2025.

In its relations with China, Germany will continue to rely on the “partner, competitor, rival” formula. In charting its policy course, Germany will seek to combine solidarity with the EU⁸⁷, its own trade interests and attempts to reduce economic dependence, especially in “critical supplies and

⁸⁷ Yulia Yu. Melnikova. Europeanization of the Germany's China Policy in Early 2020s: National Interests // Comparative Politics Russia. 2024. No. 15(2). P. 50–75.

technologies” by diversifying supply chains and controlling investment⁸⁸. Meanwhile, the importance of China for the German economy will remain high. The future of the German car industry will remain a crucial issue in relations with China. Germany, on the one hand, will oppose European restrictive measures for Chinese electric cars, as it fears for its car sales in China. On the other hand, German automobile concerns (Volkswagen Group, BMW, Mercedes-Benz) will develop strategies to stop the decline in demand for German cars in China, to resist possible competition from cheap Chinese electric cars, and to enter new markets in order to diversify trade.

Germany will continue to develop its cooperation with the countries of the Global South, including working to deepen economic and political cooperation with India. However, it is highly unlikely that an EU-India Free Trade Agreement will be signed in the near future. Berlin will continue to improve relations with the Gulf monarchies (Saudi Arabia, Qatar, UAE), which is reflected in the growth of energy supplies from the Gulf countries to the FRG and the softening of the German position on arms exports to Saudi Arabia. Berlin will continue its rapprochement with a number of African countries (migration issues, fossil resources). However, Germany's role on the continent will remain low.

Germany's importance in the post-Soviet space will not increase significantly either. Germany will continue economic cooperation with Kazakhstan, primarily on energy issues. Active political dialog with Moldova and support for Maia Sandu will continue. Interaction with other countries (primarily Uzbekistan, Kyrgyzstan, Armenia) will be carried out within the framework of development policy: through party-political foundations and NGOs. If the government of the Georgian Dream party remains in Georgia, Berlin will support the reduction of European economic aid and political contacts with Tbilisi.

It is unlikely that the new coalition will seriously change German policy toward Ukraine. The FRG will continue to provide economic and military support to Kiev, but the volume of assistance will be lower than in 2024. The FRG will provide about 40 Leopard 1 tanks, Gepard SPAAGs, about 15 IRIS-T medium- and short-range SAMs, Dachs engineering tanks, drones, artillery shells, etc⁸⁹. Germany will not be the leading initiator of the Ukrainian conflict settlement and will build its policy depending on the position of European allies, the US and Kyiv.

Berlin will also not make active attempts to resolve the Middle East crisis. The new German government will continue to sell arms to Israel and refrain from criticizing its actions. This position is based on the concept of Staatsräson (state interest), which is based on overcoming the Nazi past, and according to which the security of Israel is an integral part of German foreign policy⁹⁰. Of particular concern to Berlin will be possible pro-Palestinian demonstrations in Germany itself.

⁸⁸ *Vladislav B. Belov*. German-Chinese economic relations in the context of current geopolitical challenges // Contemporary Europe. 2023. No. 7. P. 111–126.

⁸⁹ Diese Waffen und militärische Ausrüstung liefert Deutschland an die Ukraine // Bundesregierung. 2024. 10.11. URL: <https://www.bundesregierung.de/breg-de/aktuelles/lieferungen-ukraine-2054514> (Accessed: 19/12/24).

⁹⁰ *Karina Hderi*. The Gaza Conflict has Exposed the Crisis in German Foreign Policy // The Russian International Affairs Council. 2024. 21.11. URL: <https://russiancouncil.ru/analytics-and-comments/columns/europeanpolicy/konflikt-v-gaze-obnazhil-krizis-vneshney-politiki-frg/> (Accessed: 19/12/24).

France

The dynamics of France's socio-economic development in 2025 is expected to be modest. GDP growth will remain minimal (1.1% according to the IMF forecast), which generally corresponds to the indicators of the Eurozone (1.2% in 2025): France will lag behind the US (2.2%) and even more so behind China (4.5%)⁹¹. Modest growth will be driven mainly by private domestic demand. Lower inflation (around 1.8%), increased purchasing power and investment are expected to accelerate consumption and business activity. In 2025, the state budget deficit will remain (5.0-5.3%⁹²), but it may be reduced in 2026 if the government takes measures to improve its finances. At the same time, the unemployment rate will remain and possibly rise (7.6%⁹³), partly because of the government's reduced spending on employment policy incentives. French purchasing power is expected to fall (0.7%⁹⁴) due to lower employment, weak growth in social benefits and reduced income from savings⁹⁵.

The *internal political situation* will reflect the party-political balance, the uncertainty of which was seriously exacerbated by the events of 2024. The defeat of the Macron's Renaissance party in the European Parliament elections (won by Marine Le Pen's far-right Rassemblement Nationale) and then in the extraordinary elections to the National Assembly (won by the left-wing New Popular Front bloc) not only prevented it from regaining an absolute majority, but also turned it into a minority party. Macron's rating fell to 22% in October 2024, the lowest since 2017. However, he refused to give the leftists (the formal winners of the elections to the National Assembly) a mandate to form a government and had to form a center-right cabinet of Macronites and Republicans under the leadership of an experienced politician – a veteran of the Republican party, Michel Barnier.

Barnier faced a difficult task: to pass the draft state budget for 2025. The plan was to save about €60 billion by cutting public spending by €40 billion and raising taxes on big business by €20 billion⁹⁶. These plans were largely responsible for the parliamentary vote of no confidence and the resignation of Michel Barnier's government on December 4, 2024. Given the fragile support of the Macronites in the parliament, the formation of a new government loyal to the president will be difficult. The situation is aggravated by the ongoing investigation of Marine Le Pen's case of misappropriation of funds with the prospect of banning her from running for the presidential

⁹¹ Bohineust A. Derrière une «Résilience Exceptionnelle», de Multiples Risques Menacent L'économie Mondiale // Le Figaro. 2024. 22.10. URL: <https://www.lefigaro.fr/conjoncture/face-aux-risques-persistants-le-fini-reste-prudent-pour-l-economie-mondiale-et-prevoit-une-croissance-a-3-2-en-2025-20241022> (Accessed: 18/12/24).

⁹² Publication du Rapport économique, social et financier — PLF pour 2025 // Ministre de l'Économie, des Finances et de l'Industrie. 2024. 14.10. URL: <https://www.tresor.economie.gouv.fr/Articles/2024/10/14/publication-du-rapport-economique-social-et-financier-plf-pour-2025>; Économie : à quoi s'attendre en 2025 pour la France? // Sud Ouest. 2024. 16.10. <https://www.sudouest.fr/economie/finances/economie-a-quoi-s-attendre-en-2025-pour-la-france-dette-emploi-croissance-l-annee-s-annonce-douloureuse-21787031.php> (Accessed: 18/12/24).

⁹³ Projections Macroéconomiques pour la France établies par la Banque de France // Banque de France. 2024. 17.09. URL: https://www.banque-france.fr/system/files/2024-09/projections-macroeconomiques_septembre-2024.pdf (Accessed: 18/12/24).

⁹⁴ Heyer E. et Timbeau X. (dir.). L'heure des Comptes : Perspectives 2024-2025 pour L'économie Française // OFCE. 2024. 10.04. URL: <https://www.ofce.sciences-po.fr/pdf/pbrief/2024/OFCEpbrief126.pdf> (Accessed: 18/12/24).

⁹⁵ Économie : à Quoi S'attendre en 2025 pour la France? // Sud Ouest. 2024. 16.10. URL: <https://www.sudouest.fr/economie/finances/economie-a-quoi-s-attendre-en-2025-pour-la-france-dette-emploi-croissance-l-annee-s-annonce-douloureuse-21787031.php> (Accessed: 19/12/24).

⁹⁶ Garcin-Berson W. Budget 2025 : Visualisez Comment se Répartissent Précisément les 60 Milliards D'euros D'efforts // Le Figaro. 2024. 10.10. URL: <https://www.lefigaro.fr/conjoncture/budget-2025-visualisez-comment-se-repartissent-precisement-les-60-milliards-d-euros-d-efforts-20241010> (Accessed: 19/12/24).

elections in 2027. If by June 2025 the government fails to adopt a new budget, keeping the old one (with a deficit of over 3% of GDP), the country will face sanctions from Brussels in the form of reduced subsidies from EU funds⁹⁷.

Against this backdrop, social tensions could be triggered by farmer protests (in light of EU-Mercosur negotiations on a free trade area) and government attempts to carry out electoral reform in New Caledonia, including the postponement of local elections that triggered unrest in May 2024 until late 2025. Contradictions between Macronites, leftists and far-rightists on these issues, as well as on migration policy, which the right-wing parties are demanding tougher, could lead to the fall of Michel Barnier's government in 2025 and the holding of new elections after June 9, 2025.

Foreign policy. The rise of Donald Trump to power in the US and the political crisis in Germany are becoming for France both a challenge and an opportunity to unite EU partners around itself to promote Strategic Autonomy initiatives⁹⁸. Macron will have to contend with rising US trade tariffs, the expansion of US military-industrial companies in the EU arms market, and US pressure on EU countries to toughen Europeans' stance on China and, conversely, to increase support for Israel. All this is capable of complicating Franco-American relations. It is indicative that 62% of the French met Trump's re-election with concern, believing that it will aggravate the settlement of a number of problems: the struggle against climate change, US-European relations, the global economy, the Ukrainian and Middle East conflicts⁹⁹. At the same time, France will continue to increase defense spending (from €47.2 billion in 2024 to €50.5 billion in 2025¹⁰⁰), which should exceed 2% of GDP. Against this backdrop, Trump's calls for Europeans to take more responsibility will stimulate support in France for the idea of Strategic Autonomy. While the US will seek to shift the defense costs of supporting Ukraine to the EU, it could be a matter of “division of country specializations” within NATO (e.g., on the issue of European Missile Defense, where France and Germany cannot yet find a common approach).

The political crisis in Germany (until a new coalition is formed) will initially be to Macron's advantage: before the election of a new German chancellor in the spring of 2025, Macron has a chance to act as the leader of the EU's liberal-democratic forces and to find common ground with Trump, who takes office as US president in January. If the center-right CDU/CSU bloc wins, Macron will probably find it easier to find common ground with the Germans than under Social Democrat Olaf Scholz – especially on issues of innovation, EU competitiveness and greening the

⁹⁷ Bordet M. Le Gouvernement Barnier en Sursis : les 5 Dates de Tous les Dangers // Le Point. 2024. 23.09. URL: https://www.lepoint.fr/economie/le-gouvernement-barnier-en-sursis-les-5-dates-de-tous-les-dangers-23-09-2024-2570906_28.php (Accessed: 18/12/24).

⁹⁸ Duclos M. [Trump II] — Quel Nouveau Partenariat Entre la France et les États-Unis? // Institut Montaigne. 2024. 07.11. URL: <https://www.institutmontaigne.org/expressions/trump-ii-quel-nouveau-partenariat-diplomatique-avec-paris> (Accessed: 18/12/24).

⁹⁹ Les Français et L'élection de Donald Trump. // Elabe. 2024. 07.11. URL: <https://elabe.fr/election-us-donald-trump/> (Accessed: 18/12/24).

¹⁰⁰ LOI n° 2023-703 du 1er Août 2023 Relative à la Programmation Militaire pour les Années 2024 à 2030 et Portant Diverses Dispositions Intéressant la Défense // Legifrance. 2023. 01.08. URL: <https://www.legifrance.gouv.fr/jorf/id/JORFTEXT000047914986> (Accessed: 18/12/24).

energy transition – in the spirit of the Draghi report¹⁰¹. Franco-German-Polish initiatives in the Weimar Triangle format cannot be ruled out here.

France will continue to support Ukraine, both politically, including Ukraine's accession to the EU and NATO, and militarily and economically, including supplying Kyiv with artillery – Caesar SPH, long-range Scalp missiles and possibly Mirage fighter jets. Paris will make efforts to bring the Global South into the Western camp (through the UN and G20) in order to isolate Russia. According to 2024 data, the majority of French people are concerned about the Ukrainian conflict (75%) and are afraid of French involvement in it (65%). At the same time, 55% support the continuation of military support for Ukraine, 54% are in favor of training Ukrainian pilots, but are against sending French troops (83%) or instructors (57%) to Ukraine¹⁰². Interestingly, according to the majority of the French (68%), France's military support should contribute to a diplomatic settlement, and for only 32% – to Ukraine's victory on the battlefield¹⁰³. However, this will have little effect on relations with Russia: 51% of the French said Macron should see Russia as “a necessary evil that must be put up with,” 37% as “an adversary that must be fought,” and only 11% as an “ally or partner”¹⁰⁴. Under these conditions, no warming of Russian-French relations is expected until the end of the Ukrainian conflict or the freezing of hostilities in any form.

In Africa, where French influence has come into question in recent years, France will struggle to maintain its position. Its main task is to form a new strategy capable of building its dialog not only with the political circles of African countries, but also with representatives of their civil society and youth. It can be assumed that democratic messianism will give way to more pragmatic approaches. France is likely to continue securitizing its African policy, making efforts both to fight Islamism in the Maghreb and the Sahel and to undermine the influence of its rivals – China, Russia and Turkey – on the continent¹⁰⁵.

France will continue on its course of strengthening its presence in the Indo-Pacific region (IPR). It is likely to focus on three tasks. The first is resolving the crisis in New Caledonia, France's mainstay in the region. The second is maintaining a softer approach toward China despite US pressure. The third is to continue efforts to form a friendly coalition of countries in the IPR (primarily India, Australia, and ASEAN countries are seen in France as the latter) by signing new major arms contracts and developing political dialogue.

In the Middle East, France will seek to participate in the settlement of the Palestinian-Israeli conflict, defending the position of recognizing both states. At the same time, French sympathies are, in fact, split roughly in half (they condemn both Hamas and the Netanyahu government), while the

¹⁰¹ Quel Leadership Franco-Allemand au Sein de l'UE après les élections Européennes ? // Euradio. 2024. 12.11. URL: <https://euradio.fr/emission/KOXZ-paris-et-berlin-sur-les-ondes/oNq6-quel-leadership-franco-allemand-au-sein-de-lue-apres-les-elections-europeennes> (Accessed: 18/12/24).

¹⁰² [Sondage] — Les Français et la Guerre en Ukraine // Institut Montaigne. 2024. 13.06. URL: <https://www.institutmontaigne.org/expressions/sondage-les-francais-et-la-guerre-en-ukraine> (Accessed: 18/12/24).

¹⁰³ Ifop-Fiducial pour Sud Radio. Balise d'opinion #267. Deux ans après le Début de la Guerre : le Regard des Français sur le Conflit Russo-Ukrainien // Ifop. 2024. Mai. URL: <https://www.ifop.com/wp-content/uploads/2024/05/120531-Rapport-SR-N267.pdf> (Accessed: 18/12/24).

¹⁰⁴ Ukraine: pour 68% des Français Emmanuel Macron a eu Tort // Odoxa. 2024. 29.02. URL: <https://www.odoxa.fr/sondage/ukraine-pour-68-des-francais-emmanuel-macron-a-eu-tort/> (Accessed: 18/12/24).

¹⁰⁵ Prod'homme P. Quelle Stratégie pour la France en Afrique ? // Revue Defense Nationale. 2023. HS13. P. 375–394. URL: <https://www.defnat.com/e-RDN/vue-article-cahier.php?carticle=614&cidcahier=1320> (Accessed: 18/12/24).

majority takes a rather equidistant position¹⁰⁶. The key question is whether France can engage EU member states to influence Trump and Israel to offer a political solution to the conflict.

United Kingdom

Domestic politics. In July 2024, following the results of the general parliamentary elections, the Conservative Party for the first time since 2010 ceded power to the Labour Party headed by Prime Minister Keir Starmer. The last election clearly demonstrated the trends of recent years, which will have a multidirectional impact on British politics in 2025.

On the one hand, the change of the ruling party and a strong majority of one of the two traditionally leading political forces in British politics in the House of Commons will have a stabilizing effect. The public's disillusionment with the Conservatives, intra-party disagreements and the Tories' lack of new ideas and bright leaders will also play into the hands of the Keir Starmer government. On the other hand, the situation favorable for the ruling party is limited to Parliament. Social tensions and distrust of politicians in general remain high and will significantly limit the freedom of action of the Labour government in 2025.

The distribution of seats between representatives of different political forces in Parliament is even more than usual conditioned by the peculiarities of the British electoral system and does not fully reflect the public mood. Support for the ruling party in the society is in reality quite weak. Labour's victory is ensured by disappointment in the results of the Conservatives' rule, not by the popularity of Keir Starmer or the attractiveness of the election program presented by him. In the 2024 election, Labour won 411 of the 650 seats in the House of Commons, but only about 9.7 million voters cast ballots for the party – down from the previous, unsuccessful for Labour, election in 2019, when 10.2 million people voted for the party. The Conservatives' results – 121 seats and 6.8 million votes – are pitiful compared to the 2019 election, when the party won nearly 14 million votes and 365 seats in the House of Commons, but enough to take the official opposition's place as the second-largest parliamentary faction. Together, the two traditionally leading political forces won a record low share of the popular vote.

More than 4 million people voted for the right-wing populist party Reform UK in 2024, giving it five seats in the House of Commons. Thanks to good constituency work, the Liberal Democrats won 72 seats with 3.5 million or 12.2% of the vote – 15 more than in the party's successful 2010 election, when it won 6.8 million votes¹⁰⁷.

In 2025, the growing imbalance in the relationship between society and the government becomes a risk factor. Already by the end of 2024, after a brief upswing immediately after the elections, the ratings of the Labour Party and the government were almost as low as those of their predecessors:

¹⁰⁶ 7 Octobre, un an après Conflit au Proche-Orient : Quels Impacts sur L'antisémitisme et L'islamophobie en France ? // Destin commun. URL: https://www.destincommun.fr/media/jxgjt2be/destin-commun_antis%C3%A9mitisme-islamophobie_-rapport.pdf (Accessed: 18/12/24).

¹⁰⁷ Cracknell R., Baker C. General election 2024: Results and analysis // House of Commons Library. URL: <https://researchbriefings.files.parliament.uk/documents/CBP-10009/CBP-10009.pdf> (Accessed: 19/12/24).

in November 2024, according to the YouGov research company, about 20% of respondents approved of the government's activities and 56% disapproved of them¹⁰⁸.

Due to the peculiarities of the national electoral system, which provides an advantage to the large traditional parties and their candidates on the ground, protest moods remain largely outside Parliament and can manifest themselves under unfavorable conditions. In July-August 2024, large-scale protests and riots took place in major UK cities in connection with the unsatisfactory, from the point of view of a part of society, immigration policy. Spontaneous outbursts of discontent in various forms are not excluded in 2025 as well. Improvement of the socio-economic situation can reduce tensions, but for this the government will need to demonstrate significant for society successes in some area. Given the accumulated imbalances and contradictions in the socio-economic sphere, it will be difficult to do this within a year.

The political landscape in Scotland and Northern Ireland has changed somewhat. A series of crises in the Scottish National Party (SNP) has led to the party losing ground: in the general parliamentary elections, it won only 9 seats in the House of Commons instead of the previous 48. The party's loss of electoral support makes a new referendum on Scottish independence less likely. The issue is probably going to remain in the background in 2025.

In Northern Ireland, as a result of the redistribution of electoral votes at elections of all levels, the position of the Sinn Féin party, which is in favor of the unification of Ireland, has strengthened. At the same time, in 2025, the course of restoring close relations between the UK and the EU and measures aimed at stabilizing the socio-economic situation announced by the government of Keir Starmer may have a stabilizing effect on Northern Ireland.

Socio-economic situation. By the time Labour came to power, macroeconomic indicators pointed to some improvement compared to previous periods. The National Statistics Service estimated GDP growth of 0.7% in Q1 2024, 0.5% in Q2 and 0.1% in Q3. Year-on-year growth in the consumer price index approached the Bank of England's target of 2% in 2024. In August 2024, for the first time since the COVID-19 pandemic, the Bank reduced the base interest rate from 5.25% to 5% per annum, and in November it was followed by another reduction by 0.25 p. p. Economic forecasts of experts and international organizations are moderately optimistic. Thus, the IMF raised the forecast of GDP growth in the United Kingdom to 1.5%¹⁰⁹. Nevertheless, significant risks remain: they are related to both the unstable geopolitical situation and the accumulated socio-economic difficulties in the UK itself.

After coming to power, Prime Minister Keir Starmer stated that the situation in the country was “worse than expected”, in particular, he reported about the “black hole in the budget” left by the Conservatives in the amount of £22 billion. This rhetoric was used to prepare public opinion for the measures announced by the head of the ministry of finance R. Reeves at the presentation of the country's budget in October 2024.

¹⁰⁸ Government approval // YouGov. URL: <https://yougov.co.uk/topics/politics/trackers/government-approval> (Accessed: 19/12/24).

¹⁰⁹ World Economic Outlook: Policy Pivot, Rising Threats // International Monetary Fund. 2024. October. URL: <https://www.imf.org/en/Publications/WEO/Issues/2024/10/22/world-economic-outlook-october-2024> (Accessed: 19/12/24).

In its election manifesto, Labour promised voters that it would achieve the highest economic growth rate among the Group of Seven countries. It is unlikely that the government will be able to achieve this goal in 2025, as it will have to outperform the United States and Canada. At the same time, overcoming the crisis and lower inflation, which could lead to a further reduction in the Bank of England's key rate in 2025, could reduce the pressure on households.

Labour will have to maneuver between its pre-election promise of “no tax increases for workers” and the need to address the accumulated socio-economic difficulties. The state of healthcare and social services remains one of the most pressing problems. The government of Keir Starmer announced the allocation of additional £25.7 billion to support the National Health Service in 2025. However, according to experts, the situation in this area requires substantial reforms, not just an additional injection of budgetary funds. In 2025, the problems and challenges will persist, and it will be difficult for the government to demonstrate convincing results for citizens, indicating the overcoming of negative trends.

Foreign policy and defense. In the foreign policy, a significant factor causing a high degree of uncertainty was the victory of Donald Trump in the US elections. Any serious changes in the US foreign policy course will have significant consequences for British policy in almost all areas, whether it is the situation in Ukraine, the conflict in the Middle East, the UK's interaction with the EU or with China. In the defense and security sphere, the UK-US partnership is most obvious – In addition to NATO membership, the countries also cooperate in the Five Eyes intelligence alliance and the trilateral defense alliance AUKUS. The personal factor, traditionally significant for the US-British “special relationship,” may also play a certain role.

The Labour government is focused on restoring closer relations with the European Union, damaged by Brexit. Uncertainty in relations with the US will further facilitate this rapprochement. The policy of strengthening relations with the EU as a whole and with individual European countries was already evident in 2024, including the visits of Keir Starmer to Germany and France. Another step in this direction was the appointment of experienced diplomat Jonathan Powell as national security adviser in November 2024. There is also a possibility that the experience of the new adviser in the field of peace negotiations and settlement may be in demand in case of implementation of Donald Trump's initiatives to end the Ukrainian conflict. In general, the UK's policy of unconditional support for Ukraine and opposition to Russia remains unchanged. Despite the generally critical attitude towards the government, the British policy towards the Ukrainian conflict is still supported by the majority of the population.

A new National Security Strategy Review is expected to be published in 2025, which preparation started almost immediately after the Labour government came to power. In its election manifesto, the party announced its intention to increase defense spending to 2.5% of GDP, but no timetable for the implementation of this promise was given.

The UK is at a fork in the road in its relationship with China. A strategy document published under the Conservatives called China an “era-defining challenge,” but UK-China relations have deteriorated markedly in recent years. The new government intends to audit the bilateral relationship to “improve the UK's ability to understand and respond to the challenges and opportunities posed by China.” The US position on China will continue to play a significant role for

the UK, which means that the negative dynamics in relations with Beijing will continue. At the same time, economic ties between the countries remain, and the Labour government will try to find a balance between political constraints and economic interests.

The continuation of the conflict in the Middle East has a negative impact on British society. The statements of the previous Conservative Party Prime Minister Rishi Sunak and Labour leader Keir Starmer in support of Israel contributed to the decline in the popularity of both leading parties among a certain part of the electorate in the run-up to the elections. The first steps of the Labour government – the resumption of funding for UNRWA, suspended by the Conservatives, and the revocation of 30 licenses for arms exports to Israel in connection with the situation in the Gaza Strip – indicate a shift in British strategy in this direction. However, from the point of view of a significant part of society, such measures may be insufficient. Respondents to surveys by research organizations increasingly express sympathy for the Palestinian side and support a complete ban on arms supplies to Israel. By some estimates, British protests against Israel's actions have been the largest in recent memory. There has also been a rise in religious hate crimes. Under pressure from public opinion, a further gradual change in the government's policy and rhetoric towards Israel is likely to occur.

Central and Eastern Europe

In 2024, the Central and Eastern European (CEE) economies grew faster than the EU as a whole. GDP growth was above the EU average in 8 of the 11 CEE EU member states. This trend is expected to strengthen in 2025. The European Commission (EC) estimates that only Latvia and Estonia will have annual GDP growth below the EU average (1.5%), while the remaining CEE countries will have GDP growth of 1.8-3.6%¹¹⁰. On the whole, economic growth in the CEE region provides a good basis for fairly calm political development. However, rather high energy and food inflation remain negative socio-political factors. Sporadic mass protests, especially by farmers, are not excluded, primarily due to the discontent of CEE agrarians with the import of cheap food from Ukraine and the threat of liberalization of such imports from Mercosur countries.

The official political season of 2025 in the CEE region will be of less scope and significance than in 2024. Parliamentary elections are scheduled only in the Czech Republic and presidential elections in Poland. However, these elections will be quite tense. In addition, the continuation of the protracted parliamentary crisis in Bulgaria and, especially, unscheduled presidential elections in Romania – key countries on NATO's eastern flank and Ukraine's closest neighbors – will significantly complicate the region-wide political situation.

The development of the political situation in 2025 and, probably, in the coming years will be largely influenced by the results of two key events of 2024 – the elections to the European Parliament and the presidential elections in the United States. The former clearly reflected the sharp, often more significant than in the “old” EU countries, right-wing political turn of the “new Europeans”. The latter will have to be taken into account in the realization of long-term economic and military-

¹¹⁰ Autumn 2024 Economic Forecast: A Gradual Rebound in an Adverse Environment // The European Commission. 2024. 18.11. URL: https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/autumn-2024-economic-forecast-gradual-rebound-adverse-environment_en#forecast-for-eu-candidate-countries (Accessed: 19/12/24).

political strategies of CEE countries within the framework of the general course of the EU and NATO.

The turn to the right of the political elite of CEE countries is clearly reflected in the distribution of their representatives in the EP political groups and “areas of responsibility” in the European Commission. While the average share of CEE parliamentarians in the total number of MEPs is 29%, their share in the main center-right groups (the European People's Party and the European Conservatives and Reformists group) is 1.3-1.6 times higher. On the contrary, on the left flank – in the social-liberal faction Renew Europe Group (fifth in the EP) the share of representatives of CEE countries amounted to only 27%, in the center-left Group of the Progressive Alliance of Socialists and Democrats (second in the EP) – less than 25%, in the Group of the Greens – only 11%, in the group Left – 0. In the marginal groups – the nationalist, Euroskeptic and populist Europe of Sovereign Nations Group and the notional group of Non-inscrits (predominantly communist and far-right parties) – the CEE countries accounted for about 30% each. In the composition of the EC, representatives of right-wing and far-right parties occupied 7 out of 11 seats for CEE countries, including the most important ones (on economy and productivity, budget, research and innovation, international partnership, defense and space). At the same time, representatives of hard anti-Russian Estonia and Lithuania were appointed as European Commissioners for strategic areas of foreign policy and defense, while a representative of Hungary, which is “loyal” to Russia, was “demoted” from the post of European Commissioner for Neighborhood Policy and Enlargement to the post of health care supervisor¹¹¹.

After Donald Trump's election victory, the “right-wing bias” in CEE countries has generally increased. For example, in Poland, polls showed a 7-fold higher increase in public support for the “pro-Trump” Law and Justice party than for the “Trump-skeptical” ruling Civic Coalition party.

In general, the “law-oriented layout” reduces potential divergences between the positions of the legislative and executive branches of power in the European Union, which make it difficult to reach consensus on strategic and the most important tactical issues – the EU's positioning in the global world (relations with the United States, China, Russia, the Global South), ensuring economic, technological and military-political autonomy and security, demographic and migration policy, etc. This is especially important given the changes in the approaches to environmental, trade, technological and military-political problems declared by Donald Trump, including “increasing the responsibility” of the EU countries for solving them in their region.

The corresponding rationalization of key EU strategies has already begun. The EU's priority strategy of green transition and climate neutrality (given weakening domestic public support and Trump's threats to withdraw from the Paris Agreement) has lost two “specialized” commissioners in the new EC, and some CEE countries are already proposing to reconsider the planned climate goals due to the impossibility of achieving them “without global allies”. On issues of trade and technological autonomy, the CEE countries, like most other EU members, are against tariff wars with the US and China, in favor of Euro-Atlantic coordination of actions, as well as for the intensification of support for technological progress within the countries: for example, in the

¹¹¹ Commissioners-Designate (2024–2029) // The European Commission. 2024. URL: https://commission.europa.eu/about-european-commission/towards-new-commission-2024-2029/commissioners-designate-2024-2029_en (Accessed: 20/12/24).

automotive industry, which is key to the EU economy, the time to bring a new model to market is 2.5 times longer than in China, and the profitability of the industry has fallen almost threefold to 2-3%.

In the area of political-military security (including military support for Ukraine), they agree in principle to assume greater responsibility, “without expecting the US to pay for the defense expenditures of NATO European countries in the long term”. However, the CEE countries' ability to contribute to the EU's security autonomy is limited, and most of them struggle to reach the minimum NATO defense spending requirement of 2% of GDP. However, of the 5 NATO countries that already spend more than 3% of GDP on defense, 3 are CEE countries (Poland, Latvia and Estonia). Poland has become NATO's record-breaker in terms of defense spending, bringing it to 4.2% of GDP in 2024, with a plan of 4.7% of GDP for 2025. At the same time, countries are launching new regional initiatives to improve defense capabilities under the NATO flag. For example, Poland, together with the North Baltic Eight (Latvia, Lithuania, Estonia, Denmark, Finland, Iceland, Norway, Sweden) discussed the possibility of creating common “naval police” to control and secure the Baltic by countries “feeling threatened” by Russia¹¹².

In general, the increase in defense spending is already beginning to have a negative impact on the economies of CEE countries, including an increase in the credit debt of the states (in Poland, more than \$25 billion for arms supplies from the United States and the Republic of Korea), limitation of social budget expenditures, etc. In addition, the capacity of defense industries and the staffing of armies are insufficient. Many CEE countries have difficulty recruiting soldiers, and young people are not motivated. According to the Czech Chief of the General Staff, the average age of Czech soldiers is 40 years, and of the 30,000 soldiers planned for 2030, only 24,000 will be recruited, and the new equipment will be unused.

In this regard, new commitments to collective defense and responding to specific threats, rather than theory or meeting formal requirements, become a priority. Moreover, emphasis is placed on the participation of CEE countries (especially small ones) in the development of the EU defense industrial complex. Over the past 2 years, including through the “Europeanization” of investments in former and new facilities in Hungary and Lithuania, the annual output of NATO 155 mm caliber ammunition by the German concern Rheinmetall has increased by 10 times, and by 2026 it will increase by another 1.4 times. The Czech defense industry has been particularly fast in increasing its capacity. After the start of the conflict in Ukraine, the Czech concern CSG sharply increased production of heavy ammunition, almost tripled the number of employees at its facilities in eight countries, and brought its revenues to more than \$1.2 billion, ranking 89th among the world's top 100 arms manufacturers for the first time in history. Such trends are likely to continue in 2025-2030.

With the traditional unified position of preserving and strengthening its place in the EU, in 2025, the fragmentation of the CEE countries, including between the members of the most organized Visegrad Group – Hungary and Slovakia, on the one hand, and Poland and the Czech Republic, on the other, is likely to persist or even intensify on a number of important issues. The divergence

¹¹² Tusk, Kristersson Forge Strategic Partnership, Pledge ‘Ironclad’ Support for Ukraine // Euractiv. 2024. 29.11. URL: <https://www.euractiv.com/section/politics/news/tusk-kristersson-forge-strategic-partnership-pledge-ironclad-support-for-ukraine/> (Accessed: 20/12/24).

concerns both internal issues of EU functioning – industrial, agricultural and foreign trade policy (especially the EU-Mercosur trade agreement), and foreign and security policy, including the causes and prospects for resolving the Russian-Ukrainian conflict (Poland and the Czech Republic place the blame on Russia, while Hungary and Slovakia consider the blame to be shared, including the influence of the US and NATO). Officially joining the anti-Russian restrictions of the Collective West, they are in fact partially circumventing them, first of all, by purchasing Russian energy resources and selling their machine-building products. Furthermore, in order to end the conflict as soon as possible, the CEE countries (except Poland and the Baltic States) actually allow territorial concessions from Ukraine. Bulgarian President Rumen Radev and Călin Georgescu, who won the first round of the presidential elections in Romania in 2024, are close to the Hungarian and Slovak positions. In June 2024, Rumen Radev blocked the adoption by the Bucharest Nine (created to strengthen NATO's eastern flank with Bulgaria, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Czech Republic, Estonia) of a common position on providing military assistance to Kiev¹¹³. Given Donald Trump's declared emphasis on a negotiated and diplomatic settlement of the conflict, the “peacekeeping” positioning in the CEE countries may intensify in 2025.

Poland will receive special attention in 2025, among other reasons, because its presidency of the EU in the first half of the year will influence the beginning of adaptation of the EU authorities to the new US administration.

Poland

Poland's domestic and partly foreign policy in 2025 will be largely determined by the preparation and results of the main event of the 2023-2025 electoral cycle – presidential elections in May 2025. The election campaign promises to be intense. In the first half of 2025 the political life of Poland will be centered around the traditional for the country confrontation of candidates from two opposing parties – Karol Nawrocki from Jarosław Kaczyński's Law and Justice (PiS) party and Rafał Trzaskowski from Donald Tusk's Civic Platform (CP) party. Although, according to the polls of October-November 2024, the candidate from the party of Polish Prime Minister Donald Tusk is ahead of the opposition candidate, the results of the elections will depend not only on the election campaigns of the candidates, but also on the political successes of the ruling coalition led by the CP.

Meanwhile, several factors will seriously hamper the implementation of an effective foreign policy for the current coalition government led by Donald Tusk. The main one, of course, will be the “Trump factor”. The opposition PiS, like many other right-wing and populist parties in the EU countries, took Trump's victory with enthusiasm. In contrast, the representatives of the ruling coalition, Prime Minister Donald Tusk and Polish Foreign Minister Radosław Sikorski, not only bet on the Democrats' victory, but also repeatedly publicly criticized Trump during his election campaign¹¹⁴. Establishing effective contacts with the Trump administration will therefore be a challenge for the current Polish government. Especially given the possible attempts of the PiS,

¹¹³ Bulgarian President Blocks Common Bucharest Nine Position on Ukraine // Euractiv. 2024. 12.06. URL: <https://www.euractiv.com/section/politics/news/bulgarian-president-blocks-common-bucharest-nine-position-on-ukraine/> (Accessed: 18/12/24).

¹¹⁴ Niewygodne Słowa Donalda Tuska o Donaldzie Trumpie. Teraz Zaprzecza Sam Sobie // Onet. 2024. 07.11. URL: <https://wiadomosci.onet.pl/kraj/niewygodne-slowa-donald-tuska-o-donaldzie-trumpie-teraz-zaprzecza/wzywqq4> (Accessed: 19/12/24).

which claims to be Trump's main ally in Europe, to reach an agreement with the new US administration bypassing the government.

In general, for Poland, one of the key issues will be the American policy towards Euro-Atlantic cooperation, NATO and especially the eastern flank of the Alliance. It is unlikely that Poland will be able to take a clear position in a hypothetical crisis in US-EU relations: the government and the head of state demonstrate different approaches to national and Euro-Atlantic security issues. While incumbent Polish President Andrzej Duda is convinced that the idea of Europe's ability to ensure its own security is just a dream¹¹⁵, Prime Minister Donald Tusk, after Trump's victory, called on European leaders to strive for “defense self-sufficiency” and abandon “geopolitical outsourcing”¹¹⁶.

On the European track, Warsaw's ambitions to occupy a key place in the EU against the backdrop of governmental crises in Germany and France will, on the one hand, be limited by its own domestic political contradictions, but on the other hand, reinforced by Poland's presidency of the Council of the European Union in the first half of 2025. The Polish presidency program will focus on seven dimensions of European security – from internal to information and climate security. However, the key issues for Poland will remain military security, increasing EU spending on defense and energy. Polish diplomacy will not abandon attempts to revitalize the Weimar Triangle and reactivate, with an eye on the interest of the Trump administration, cooperation within the framework of the regional Three Seas Initiative.

Poland will also face serious challenges in the Ukrainian direction. The common backdrop for them will be Trump's promises to end the Ukrainian conflict, for which neither the government nor the opposition in Warsaw is ready. At the same time, against the backdrop of Poles' declining sympathy for Ukrainian refugees in Poland and growing discontent with spending on aid to Kiev, support for Ukraine is increasingly becoming one of the key issues in the internal political struggle. The crisis in Polish-Ukrainian relations, which began in 2023 with the “grain issue” (export of Ukrainian agricultural products to Poland), in 2024 spread to the field of historical politics. Up until almost the end of 2024, when Kiev finally met Warsaw's demands, the Polish leadership was irritated by Kiev's unwillingness to start the process of exhuming the victims of the Volhynian massacre. In particular, Donald Tusk said that Ukraine would not be able to join the EU without solving the Volhynia issue¹¹⁷. Warsaw can use its presidency in the Council of the European Union to control this process in the context of discussing Ukraine's European integration prospects. In addition, Poland, as a country that was one of the first to feel the scale of the problems associated with Kyiv's accession to the EU market, will have to develop a strategy to combine its declared geopolitical goals and its own trade and economic interests in supporting Ukraine. It can be expected that in 2025 this process will be launched in Polish society and among the political elite.

Baltic States

¹¹⁵ Prezydent Andrzej Duda: To Mrzonka, że Europa Sama Zapewni Sobie Bezpieczeństwo // Bankier.pl. 2024. 11.11. URL: <https://www.bankier.pl/wiadomosc/Swieto-niepodleglosci-Duda-To-mrzonka-ze-Europa-sama-zapewni-sobie-bezpieczenstwo-8843117.html> (Accessed: 19/12/24).

¹¹⁶ Wencel J. Tusk o Wyborach w USA: Era Geopolitycznego Outsourcingu Dobięła Końca // Gazeta Wyborcza. 2024. 02.11. URL: <https://wyborcza.pl/7,75398,31434394,tusk-o-wyborach-w-usa-era-geopolitycznego-outsourcingu-dobiegla.html> (Accessed: 19/12/24).

¹¹⁷ Donald Tusk Reaguje na Słowa Ukraińskiego Ministra. “Jednoznacznie Zła Ocena” // Onet. 2024. 30.09. URL: <https://wiadomosci.onet.pl/kraj/dmytro-kuleba-mowil-o-wolyniu-jest-reakcja-donalda-tuska/2nd1617> (Accessed: 18/12/24).

In the Baltic States in 2025, internal political contradictions related to economic problems, including inflation and rising energy prices, will continue to grow. As in 2023-2024, these problems will negatively affect the sustainability of the coalition governments of the three Baltic republics. In addition to economic challenges, the Baltic States will continue to face demographic problems related to the ongoing population outflow and depopulation of the region. Crisis phenomena in public life will also increase: strengthening of the social split, growth of distrust towards the authorities, xenophobia. The Lithuanian authorities will be most concerned about migration issues due to the increasing inflow of migrants from Central Asian countries.

The growing domestic political difficulties in Lithuania, Latvia and Estonia will not affect their governments' policy toward Russia. On the foreign policy track, one can expect demands for increased EU support for Ukraine and intensification of the Baltic states' own efforts to supply ammunition to Kiev. Domestically, we can expect further discriminatory pressure on Russian-speaking minorities in the sphere of political rights and education. Among the most pressing issues will remain threats of mass expulsion of Russian-speaking residents of Latvia, as well as increased pressure on the Orthodox Church in Lithuania and Estonia to officially sever their ties with the Russian Orthodox Church.

The change of administration in the United States will not lead to a revision of the orientation of Vilnius, Riga and Tallinn towards Washington, but it may make the policy in the sphere of transatlantic relations more flexible. The Baltic states will more actively advocate for further integration with the EU structures, development of regional security cooperation with Poland and Scandinavia, and strengthening the collective defense of the EU's eastern flank and NATO. On the latter issue, the main efforts will be aimed at effectively finalizing the processes of deploying the German brigade in Lithuania and strengthening the British military presence in Estonia. All three countries will continue to advocate a further increase in defense spending to 3% – Estonia and Latvia reached this figure in 2024¹¹⁸, Lithuania plans to reach it in 2025.

¹¹⁸ Bloomberg: NATO's Eastern Flank has Increased Defense Spending to \$70 Billion // TASS. 2024. 09.10. URL: <https://tass.ru/mezhdunarodnaya-panorama/22077545> (Accessed: 19/12/24).

MIDDLE EAST AND AFGHANISTAN

The development of the situation in the Middle East in 2025 will be characterized by a high level of uncertainty. This is due to unresolved conflicts and continuing military tension, growing internal instability in the most vulnerable states, and the expectation of changes in US policy in the region under the Trump administration. Under the new conditions, additional opportunities may open up for Russia and, at the same time, a number of difficulties may arise in bilateral relations with certain regional actors.

Conflicts

In 2025, there is no reason to expect the resolution of major conflicts in the Middle East, although attempts to resolve them or at least reduce tensions will intensify. The Israeli-Palestinian crisis will not be resolved in 2025. Only interim agreements can be expected that will open the door to expanding humanitarian aid and beginning to rebuild the basic infrastructure of the Gaza Strip. The Israeli operation has caused major destruction (about 80%¹¹⁹) of residential buildings, hospitals and schools, energy, water and sewage networks. The World Bank in March 2024 estimated the damage at \$18.5 billion¹²⁰.

The UN estimates that it will take 15 years and more than \$650 million to just clear the area¹²¹. More than 40,000 Palestinians in Gaza (the vast majority of whom are civilians) have been killed and more than 90% (1.9 million) of the enclave's population has been internally displaced¹²², living in hastily constructed camps. Nearly 100% of Gaza's population live below the poverty line and the price of food and basic commodities, whose supply to the Strip remains restricted by the Israeli authorities, has risen by nearly 250%¹²³. The Gaza Strip is doomed to dependence on humanitarian aid, high levels of isolation and chronic unemployment. In the absence of changes in the political and security situation, Gaza's economic problems will persist and the scope for self-sustaining growth will be severely limited¹²⁴.

Meanwhile, the Israeli operation in Gaza will continue “until all its objectives are met”, the full realization of which (except for the release of hostages), due to their vague wording, does not imply any specific deadlines on the part of the current Netanyahu-led cabinet. There is no desire within

¹¹⁹ Krauss J., El Deeb S. Gaza is in Ruins after Israel's Yearlong Offensive. Rebuilding May Take Decades // AP. 2024. 09.10. URL: <https://www.ap.org/news-highlights/spotlights/2024/gaza-is-in-ruins-after-israels-yearlong-offensive-rebuilding-may-take-decades/> (Accessed: 13/12/24).

¹²⁰ Gaza Strip Interim Damage Assessment: Summary Note // The World Bank. 2024. 29.03. URL: <https://thedocs.worldbank.org/en/doc/14e309cd34e04e40b90eb19afa7b5d15-0280012024/original/Gaza-Interim-Damage-Assessment-032924-Final.pdf> (Accessed: 13/12/24).

¹²¹ Krauss J., El Deeb S. Gaza is in Ruins after Israel's Yearlong Offensive. Rebuilding May Take Decades // AP. 2024. 09.10. URL: <https://www.ap.org/news-highlights/spotlights/2024/gaza-is-in-ruins-after-israels-yearlong-offensive-rebuilding-may-take-decades/> (Accessed: 13/12/24).

¹²² Reported Impact Snapshot: Gaza Strip // OCHA. 2024. 05.11. URL: <https://www.ochaopt.org/content/reported-impact-snapshot-gaza-strip-5-november-2024> (Accessed: 13/12/24).

¹²³ Gaza Strip in Maps: How a Year of War has Drastically Changed Life in the Territory // BBC. 2024. 07.10. URL: <https://www.bbc.com/news/world-middle-east-20415675> (Accessed: 13/12/24).

¹²⁴ Ibid.

the Israeli leadership to end the hot phase of the conflict as soon as possible. Nor is there a plan of action for Gaza (and the Palestinian territories in general) after the eventual end of the operation¹²⁵.

Everything that relates to the end of the conflict remains unclear: who will govern Gaza, where Israeli troops will retain control, whether peacekeeping forces involving Arab states will be introduced, whether the process of resolving the Palestinian problem will begin. It appears that the new Trump administration, despite its statements about its readiness to stop the conflict, is unlikely to be able to fulfill this. At best, we can talk about the end of large-scale active military operations and some stabilization of the situation, which would give some refugees an opportunity to return to their homes.

The likelihood of maintaining the ceasefire reached in late November 2024 on the Lebanese border is very high. The draft ceasefire includes a transition period during which the Israeli military will withdraw from southern Lebanon, the Lebanese Army will deploy to areas close to the border, and Hezbollah will withdraw its heavy weapons to the north of the Litani River.

The truce agreement provides for the establishment of a US-led committee to oversee implementation of its terms and address violations. The US agreed to provide Israel with a letter of assurance that includes support for Israeli military action against threats from Lebanon, including the re-establishment of a Hezbollah military presence near the border or the smuggling of heavy weapons¹²⁶.

All of this should ensure the return of the residents of southern Lebanon and northern Israel to their homes. However, the possibility of escalation cannot be completely ruled out. In case a final reconciliation between Lebanon and Israel is not achieved in 2025, Hezbollah may continue to launch sporadic military strikes against Israel, causing it to retaliate. Israel appears to have secured US support guarantees for good reason, which should serve as an additional deterrent to Hezbollah. Military activity on the border (if it becomes serious) may lead to increased social tension in Lebanon, especially among the part of the population that opposes Hezbollah's dominance in political life.

In Syria, the toppling of the Bashar al-Assad regime in December 2024 has put the country in a situation of extremely dangerous imbalance. The territory is divided between different factions. The north and northeast are dominated by US-backed Kurdish formations. The northwest is under control of pro-Turkish groups, while the central and southern regions are in chaos due to the confrontation between Islamist groups such as Hayat Tahrir al-Sham¹²⁷ and other opposition factions. This poses serious obstacles to the establishment of a unified governance system and the restoration of sovereignty.

The Syrian crisis will have serious international repercussions. For Lebanon, the Syrian events are associated with new humanitarian challenges: the influx of refugees from Syria puts a strain on the social infrastructure. However, the weakening of the Syrian-Iranian alliance, as well as Hezbollah,

¹²⁵ *Ibish H.* Sinwar's Death Changes Nothing // The Atlantic. 2024. 19.10. URL: <https://www.theatlantic.com/international/archive/2024/10/sinwars-death-changes-nothing/680304/> (Accessed: 13/12/24).

¹²⁶ *Ravid B.* US Believes Israel-Hezbollah Ceasefire Deal Reached: Senior Official // Axios Media. 2024. 25.11. URL: <https://www.axios.com/2024/11/25/israel-lebanon-near-hezbollah-ceasefire-deal> (Accessed: 13/12/24).

¹²⁷ Prohibited in the Russian Federation.

opens new opportunities for Beirut in its relations with Arab countries and gives it more freedom to address the tasks of rebuilding the country and strengthening the political system.

For Iran, the loss of a key ally in the person of Assad could have serious consequences. In the current situation, Tehran will try to increase support for its proxies in the region to maintain its influence, especially in Lebanon and Iraq. For Iraq, the situation remains difficult. The strengthening of radical groups in Syria threatens security on its borders. Increased border control and joint operations with international partners are possible.

For Saudi Arabia and the Gulf monarchies, the change of power in Syria risks strengthening ultra-radical ideas and sentiments. Saudi Arabia is likely to focus on supporting moderate groups inside Syria. It may also activate investment in rebuilding destroyed infrastructure, linking this to advancing its vision of a regional order. Rebuilding Syria could be an important element of Saudi Arabia's strategy to strengthen its role as the leader of the Arab world.

For Turkey, Syria remains an important element of its foreign policy in the region and also has an acute domestic political dimension due to the presence of 3.5 million Syrian refugees on its territory and the problem of terrorism on the part of the Kurdistan Workers' Party (PKK), which, according to the Turkish authorities, cooperates with the Syrian Kurds. Ankara can use the change of power in Damascus, realized with its support, to strengthen its position in northern Syria and to counter any autonomist aspirations of the Kurds.

However, the Turkish army's conflicts with Kurdish forces and radical groups will threaten the stability of the border areas. Regime change in Syria offers Israel a chance to weaken Iranian influence in the region. However, the rise of Islamist groups such as HTS causes preemptive action on Israel's part. Israel has announced its intention to maintain a military presence in the buffer zone in the Golan Heights until it receives security guarantees on the border with Syria. In 2025, the Israeli army will gain a foothold in the new frontiers and continue bombing Syrian military facilities. The US will support Kurdish formations controlling oil regions. Increasing chaos in Syria may require Washington to take more active actions (political, military, economic) to prevent further deepening of the crisis. In this context, the withdrawal of US troops from Syria seems highly unlikely.

Russia retains chances to remain an important player in Syria. It is not excluded that the new authorities in Damascus will turn to Russia with requests for support. Moscow, for its part, can offer grain supplies to solve food problems, as well as some fuel. Russia has the potential to participate in rebuilding the technical base of the regular Syrian army. This will help the new government to create effective armed forces capable of ensuring control over the territory. In addition, Russia has expertise in rebuilding infrastructure and maintaining basic social services. At the same time, Moscow faces uncertainty regarding the preservation of its military bases. The new Syrian regime may renegotiate the terms of the presence of Russian forces, which would be a serious challenge for Russian policy in the Middle East. At the same time, the interest in building relations with Russia on various issues may encourage the new regime to be more sympathetic to Russian interests.

The conflict in Libya is likely to remain frozen. The country will remain divided into Cyrenaica (east) and Tripolitania (west). The warring parties, the Libyan National Army (Benghazi) and the Government of National Accord (Tripoli), do not have the resources to conduct offensive

operations, and their external sponsors, the UAE and Turkey respectively, are not interested in resuming hostilities. In light of contacts between Turkey and LNA commander Khalifa Haftar, which began in 2024, we can expect attempts to resume inter-Libyan dialogue in the interests of national reconciliation, holding elections for the head of state and restoring the country's unity.

The crisis in Yemen will retain two dimensions – internal and external. The dynamics of the internal conflict (the confrontation between the internationally recognized government and the Ansar Allah movement) will depend on the development of relations between Saudi Arabia and Iran, which are the main external sponsors of the warring parties. If détente between Riyadh and Tehran is maintained, the resumption of civil war is unlikely. At the same time, the anti-Israeli actions of the Houthis are likely to continue. Both new strikes against Israel from the territory controlled by Ansar Allah and operations against commercial shipping cannot be ruled out. The Bab-el-Mandeb Strait will remain a war zone despite the reduced presence of European naval forces there.

The Western Sahara issue, over which Morocco and the Algerian-backed Polisario Front are vying for control, will remain de jure unresolved. The likelihood of large-scale hostilities on either side is low. There will be a process of consolidating the status quo, with approximately two-thirds of the territory remaining under Rabat's control. Morocco will continue to promote a plan to incorporate Western Sahara into the kingdom under conditions of broad autonomy. This plan has already been supported by Spain, many African states, and during his October 2024 visit, French President Emmanuel Macron also stated that the future of Western Sahara is only possible within Morocco¹²⁸. Moreover, also in October 2024, UN Special Representative Staffan de Mistura proposed his plan to divide the territory of Western Sahara into two parts: the northern part would be part of the Kingdom of Morocco and the southern part would become an independent state¹²⁹. However, the Special Representative's proposal was rejected by both sides of the conflict.

In Sudan, the civil war between the Sudanese Armed Forces (SAF) led by Abdel Fattah al-Burhan and the Rapid Support Force (RSF) led by Mohammad Hamdan Daglo will continue. Neither side has the resources to gain a decisive military victory. The active involvement of external players (Saudi Arabia, UAE, Egypt) in this conflict has greatly complicated the situation, making a settlement in 2025 unlikely, although attempts to negotiate ceasefires or localized humanitarian truces cannot be ruled out. Further deterioration of the humanitarian situation both in Sudan itself and in neighboring countries is also to be expected.

Economic trends

In 2025, the main economic trends in the Middle East countries will be driven by a combination of an unfavorable geopolitical environment (continued confrontation between Russia and Western countries, China and the United States, Iran and Israel, regional conflicts and areas of smoldering instability) and a difficult situation in the global economy (including a possible oversupply of oil

¹²⁸ La France Réaffirme la Souveraineté Marocaine sur le Sahara Occidental mais L'imbroglie Juridique Reste Intact // Le Monde. 2024. 30.10. URL: https://www.lemonde.fr/afrique/article/2024/10/30/la-france-reaffirme-la-souverainete-marocaine-sur-le-sahara-occidental-mais-l-imbroglio-juridique-reste-intact_6366771_3212.html (Accessed: 15/12/24).

¹²⁹ UN Envoy Proposes Western Sahara Partition Plan // Reuters. 2024. 17.10. URL: <https://www.reuters.com/world/africa/un-envoy-proposes-western-sahara-partition-plan-2024-10-17/> (Accessed: 15/12/24).

and LNG, unstable growth of the Chinese economy, challenges of the fourth energy transition and general politicization of energy supply issues), as well as uncertain prospects for domestic reforms aimed at adapting the Middle East economies to current and new challenges¹³⁰. A special challenge for the economies of the Middle East will be the activities of the Donald Trump administration, which can both worsen and improve the condition of a number of countries¹³¹.

Against this background, in the coming year the main efforts of the wealthiest countries of the Middle East (primarily the Arab monarchies of the Persian Gulf) will be directed towards the realization of the following tasks:

1. Maintaining the competitiveness of their oil and gas sector against the backdrop of growing competition in their traditional Asian markets. In this regard, we can expect intensification of contacts and investment cooperation with major Asian players; increase in production capacity with reduction or maintenance of low production costs; cooperation with players within OPEC+ to maintain an acceptable price level; increase in domestic consumption (and, if possible, production) of natural gas and renewable energy sources (RES) to maximize oil export volumes¹³²;
2. Acceleration of economic diversification processes through the implementation of large-scale projects and investments in such sectors as tourism, finance, RES and high technology. Special attention will be paid to investments (both domestic and foreign) in the development of the petrochemical sector. Outside the Gulf Cooperation Council, Algeria will make significant efforts to diversify its economy. In a number of other countries (Egypt, Iraq), these processes will face financial and structural challenges¹³³;
3. Expanding the range of initiatives for the development and use of RES, including in the extraction of oil and gas resources, production of LNG and petrochemical products. The Middle East countries will actively participate in green initiatives, including with their own model of a “hydrocarbon closed-cycle economy”. Outside the Gulf countries, special attention to RES development will be paid in Morocco and Egypt¹³⁴;
4. Boosting investment in the digital economy. Saudi Arabia, UAE and Egypt are establishing technology hubs to attract global investors and talent, with a focus on artificial intelligence, financial technology and smart city development initiatives¹³⁵;
5. Strengthening both intra-regional cooperation and cooperation between the Middle East countries and the Global South. A promising issue will be the increase of energy supplies within the Middle East region, as well as the development of transportation corridors and the formation of sub-regional energy hubs (within the GCC, GCC – Iraq, GCC – Levant). Against this background, in

¹³⁰ Statistical Review of World Energy. 73rd edition // Energy Institute. 2024. URL: https://www.energyinst.org/_data/assets/pdf_file/0006/1542714/684_EI_Stat_Review_V16_DIGITAL.pdf (Accessed: 15/12/24); Ingram J. IEA Warns Of Global Economy Concerns Ahead of OPEC+ Meeting // MEES. 2024. 17.05. URL: <https://www.mees.com/2024/5/17/opec/iea-warns-of-global-economy-concerns-ahead-of-opec-meeting/6c894920-1457-11ef-86f7-154b01e295d7> (Accessed: 15/12/24).

¹³¹ Salih Mohammed A. Between Activism and Isolationism: What to Expect From Trump's Middle East Policy // Foreign Policy Research Institute. 2024. 15.11. URL: <https://www.fpri.org/article/2024/11/trump-second-term-middle-east-policy/> (Accessed: 15/12/24).

¹³² Kozhanov N. Securitization of the Energy Transition and the Interests of the GCC Oil Producers // Orient. 2024. № 3.

¹³³ Sim Li-Chen. The Gulf states: Beneficiaries of the Russia-Europe energy war? // Middle East Institute. 2023. 12.01. URL: <https://www.mei.edu/publications/gulf-states-beneficiaries-russia-europe-energy-war> (Accessed: 15/12/24).

¹³⁴ Renewable Capacity Statistics 2024 // International Renewable Energy Agency. 2024. URL: <https://www.irena.org/Publications/2024/Mar/Renewable-capacity-statistics-2024> (Accessed: 15/12/24).

¹³⁵ Arab Federation for Digital Economy. al-Muashir al-Arabii lil-Iqtisad al-Raqmii. 2024. Abu Dhabi, 2024. 517 p.

2025, the economic presence of China and India in the Middle East will grow especially noticeably. Middle East countries' interaction with African countries will increase. Also, Morocco, Algeria and Egypt, which are more EU-oriented, may try to develop trade and investment cooperation with Europe. A separate issue for the countries of the Southern and Eastern Mediterranean will be the shaping of energy hubs, including with the participation of the Europeans¹³⁶;

6. Nationalization of the workforce in the context of young and growing populations in a number of countries in the region (Saudi Arabia), as well as an emerging perception in some states (Qatar) of a threat to traditional values from the expat community. In GCC countries with minimal local populations, this process may take the form of Arabization and Islamization of the workforce¹³⁷;

7. Developing the tourism industry as one of the drivers of economic diversification. Saudi Arabia, Qatar, and the UAE are investing heavily in infrastructure, cultural events, and hospitality to attract tourists from both Middle East and other regions. These trends reflect a significant shift towards opening up countries of the region as they adapt to new economic realities, positioning themselves as competitive and sustainable economies in a challenging global environment¹³⁸.

For Iraq, Egypt, Tunisia and Morocco, the issues of structural economic reforms aimed at reducing public debt and budget deficit, increasing transparency of public expenditures, improving conditions for private business and the attractiveness of the countries for external investment will remain topical.

North African countries are less affected by the negative impact of the Gaza crisis, but they will also experience economic difficulties due to fluctuations in global commodity prices and possible disruptions in supply chains, which will ultimately have a negative impact on their economic growth rates¹³⁹.

In 2025, Syria and Lebanon will face the most severe socio-economic shocks, and their impact cannot be assessed at this time.

Egypt will face challenges in the energy sector in 2025. Declining gas production and rising domestic consumption are setting the stage for an energy crisis that will put additional pressure on the country's economy¹⁴⁰. The country will be forced to increase purchases of liquefied natural gas, which risks depleting foreign exchange reserves in the context of a general weakening of the Egyptian pound and limited access to external financing.

¹³⁶ *Ali Layla*. Gulf Investments in China: A New Era of Strategic Partnerships // ISPI. 2024. 18.06. URL: <https://www.ispionline.it/en/publication/gulf-investments-in-china-a-new-era-of-strategic-partnerships-177971> (Accessed: 15/12/24); *Ingram J*. Saudi Red Sea Crude Exports to Europe Soar // MEES. 2024. 22.03. URL: <https://www.mees.com/2024/3/22/opec/saudi-red-sea-crude-exports-to-europe-soar/a7e6cd50-e860-11ee-8ef9-1f9ceedbcbbf> (Accessed: 15/12/24).

¹³⁷ *Winckler O*. Numbers Increasing, Dependence Decreasing: the GCC Changing Labor Immigration Emphasis // Gulf Research Center. 2024. URL: <https://gulfmigration.grc.net/numbers-increasing-dependency-decreasing-the-gcc-changing-labor-immigration-emphasis/> (Accessed: 15/12/24).

¹³⁸ *Koehling J. G.* Tourism in the GCC // Roland Berger Middle East. 2024. URL: <https://www.rolandberger.com/en/Insights/Publications/Tourism-in-the-GCC.html> (Accessed: 15/12/24).

¹³⁹ Regional Economic Outlook. Middle East and Central Asia. Navigating the Evolving Geoeconomic Landscape // The International Monetary Fund. 2024. URL: <https://www.imf.org/en/Publications/REO/MECA/Issues/2024/10/24/regional-economic-outlook-middle-east-central-asia-october-2024> (Accessed: 15/12/24).

¹⁴⁰ Egypt Risks Failing to Overcome Crisis due to Gas Shortage // News Agency "African Initiative". 2024. 08.04. URL: <https://afrinz.ru/2024/04/egipet-riskuet-ne-preodolet-krizis-iz-za-nehvatki-gaza/> (Accessed: 15/12/24).

In the short term, economic hardship could lead to increased social tensions and intensified protest sentiment. However, the Egyptian government is likely to apply tough measures to minimize the scale of protests.

Egypt will seek to attract capital from the GCC. Strengthening ties with Saudi Arabia and the UAE will remain a priority in 2025. These countries will continue to support Egypt financially, but will also insist on coordinating positions on regional issues. Egypt's growing participation in BRICS+ initiatives could become a driver of economic cooperation with China¹⁴¹.

For Turkey, the main challenge will be to overcome the economic crisis, which the government has been struggling with for several years. In November 2024, the Central Bank of Turkey raised its forecast for inflation, which exceeds 48% in annual terms. If earlier the Central Bank experts expected that in 2025 the inflation rate will be reduced to 14%, the new forecast assumes an inflation rate of 21%¹⁴². International institutions expect a slowdown in the growth rate of the Turkish economy in 2025. According to the IMF forecast, the growth rate will be 3% in 2024 and will drop to 2.7% in 2025¹⁴³. The same forecast assumes that unemployment in Turkey will remain at 9.6% in 2025¹⁴⁴.

Iran's economic outlook for 2025 is generally negative. Economic growth is still possible through energy exports, regional partnerships and investment in domestic industry, but political and economic risks remain high. Much depends on geopolitical events, particularly sanctions and Iran's ability to use alternative economic partnerships to mitigate Western economic pressures. In general, as of the end of 2024, experts assumed that the country was able to adapt to life under sanctions and it is impossible to significantly worsen its situation through this lever. However, given the re-election of Donald Trump, the situation may change. The new American president is ready to take much tougher steps towards the Islamic Republic of Iran, which may lead to new difficulties in the already economically weakened country¹⁴⁵.

Israel's economic problems will increase. The International Monetary Fund (IMF) predicts a decline in Israel's economic growth to 0.7% by the end of 2024, well below previous expectations of 1.6%. The adjustment is due to concerns about the unpredictable impact of regional conflicts on the Israeli economy.

¹⁴¹ *Ismaili-Bastien S.* Egypt's Entry into BRICS+: Implications for Corporate Governance in Emerging Markets // The European Corporate Governance Institute. URL: <https://www.ecgi.global/publications/blog/egypts-entry-into-brics-implications-for-corporate-governance-in-emerging-markets> (Accessed: 15/12/24); *Khalid M.* Egypt Officially in BRICS: What Should We Expect? // *Ahram Online*. 2024. 05.01. URL: <https://english.ahram.org.eg/NewsContent/3/12/515127/Business/Economy/Egypt-officially-in-BRICS-What-should-we-expect.aspx> (Accessed: 15/12/24).

¹⁴² Central Bank of Turkey Raises Inflation Forecasts for 2024 and 2025 // *Interfax*. 2024. 08.11. URL: <https://www.interfax.ru/business/990828> (Accessed: 15/12/24).

¹⁴³ IMF, Türkiye'nin 2025 Yılında %2,7 Büyümesini Bekliyor // *EKOTÜRK*. 2024. 24.10. URL: [https://www.ekoturk.com/haberler/imf-turkiyenin-2025-yilinda-27-buyumesini-bekliyor/#:~:text=Uluslararası%C4%B1%20Para%20Fonu%20\(IMF\)%2C,%252%2C7%20olarak%20kald%C4%B1](https://www.ekoturk.com/haberler/imf-turkiyenin-2025-yilinda-27-buyumesini-bekliyor/#:~:text=Uluslararası%C4%B1%20Para%20Fonu%20(IMF)%2C,%252%2C7%20olarak%20kald%C4%B1) (Accessed: 15/12/24).

¹⁴⁴ *Ibid.*

¹⁴⁵ Iran Economic Monitor, Spring 2024: Sustaining Growth Amid Rising Geopolitical Tensions – With a Special Focus: Recent Poverty and Inequality Trends in Iran (2020–2022) // The World Bank. 2024. URL: <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099051007102421530/idu1398008291628d14b5a1a9f91728b946987e4> (Accessed: 15/12/24).

In addition to lower economic growth, the IMF has also changed its inflation forecast. The inflation rate is expected to reach 3.1% in 2024, which is higher than the previous forecast of 2.4% and also exceeds the desired range of 1-3% set by the Israeli government. Inflation expectations for 2025 were also raised from 2.5% to 3%¹⁴⁶. There could be long-term negative consequences for Israel's economic stability, including a drop in its credit rating and an increase in debt rates. Lack of economic stability could lead to a massive outflow of investment capital, exacerbating Israel's economic crisis.

In a negative scenario, Israel's economy could enter a recessionary phase in 2025. Due to increased defense spending and lower tax revenues, budgetary pressures will remain high.

GDP and national budgets

According to the calculations and forecasts of global financial institutions^{147,148}, the real GDP growth in the GCC countries in 2025 will be about 4.2%. The acceleration of the growth rate is due to the gradual abandonment of the voluntary oil production cuts, which will start from December 2024. However, even with the increase in oil prices, the GCC countries will experience a reduction in the state budget surplus in 2025 to 0.2% of GDP, compared to 0.5% in 2023. It should be noted that Oman, Qatar and the UAE will maintain a state budget surplus. This situation will be maintained due to the stability of state revenues from gas exports, which are secured by long-term contracts in the case of Qatar, and in the UAE by the success in diversifying the economy. In Saudi Arabia, Kuwait and Bahrain, state budgets will remain in deficit due to increased spending on salaries, various grants, subsidies, economic development and diversification programs and, in the case of Saudi Arabia, on financing megaprojects.

Real GDP growth rates in 2025 in the rest of the region will be as follows: Iran 2.9%, Iraq 4%, Egypt 3.5%, Jordan 2.6%, Libya 10.7%, Yemen 1.5%. A sharp contraction awaits the Syrian economy due to the consequences of the forceful overthrow of the regime and general instability.

All non-oil countries will face an average budget deficit of 4.6% in 2025. This situation is associated with an increase in social subsidy payments, a rise in poverty in this group of countries and a decrease in tourist flows. There is no reason to expect that the situation will change in 2025.

Countries perspectives

Gulf monarchies

The key principle determining the regional and, in general, foreign policy of the Gulf monarchies remains a commitment to pragmatism and the desire to de-escalate and avoid a major war in the Middle East for the sake of the main goal of ensuring successful socio-economic development. The

¹⁴⁶ World Economic Outlook. Policy Pivot, Rising, Threats. October 2024 // The International Monetary Fund. URL: <https://www.imf.org/en/Publications/WEO/Issues/2024/10/22/world-economic-outlook-october-2024> (Accessed: 15/12/24).

¹⁴⁷ Middle East and North Africa Economic Update – October 2024 // The World Bank. 2024. URL: <https://www.worldbank.org/en/region/mena/publication/middle-east-and-north-africa-economic-update> (Accessed: 15/12/24).

¹⁴⁸ World Economic Outlook. Policy Pivot, Rising, Threats. October 2024 // The International Monetary Fund. 2024. URL: <https://www.imf.org/en/Publications/WEO/Issues/2024/10/22/world-economic-outlook-october-2024> (Accessed: 15/12/24).

monarchies' position on the crisis in Palestine, which turned into a ground operation in southern Lebanon and an exchange of missile strikes between Israel and Iran, is indicative in this regard.

The leadership of the monarchies (especially Saudi Arabia and the UAE) remains neutral and has consistently called for a peaceful settlement and the resolution of acute humanitarian problems. The Arab monarchies are involved in the delivery of humanitarian aid to Gaza, ceasefire negotiations, and the release of Israeli hostages and Palestinian prisoners. Qatar has emerged as a key mediator in the Palestinian-Israeli negotiations, taking advantage of its special relationship with Hamas.

The Gulf monarchies have tried to take a balanced stance after the Israeli strikes on Iranian territory on October 26, 2024. The Arabian Six leaders condemned “violations of Iranian sovereignty and territorial integrity,” but the “condemnation” focused not so much on Israel as on the possible devastating consequences of Israeli strikes that “threaten stability and security in the region.” The need to prevent further “escalation of conflict and violence” was emphasized, with calls for the conflicting parties to exercise “restraint”¹⁴⁹.

We should expect further active promotion by the Gulf monarchies, which have proclaimed their “neutrality”¹⁵⁰ in the Israeli-Iranian escalation, of trends towards “normalization” in relations with Iran, contacts with which (especially on the part of Riyadh) at the high and highest levels became noticeably more frequent in October on various platforms - on the margins of the BRICS+ summits in Kazan and the Asian Cooperation Dialogue in Doha, and visits by the Iranian foreign minister to five of the six Gulf monarchies¹⁵¹.

The new Trump administration's anti-Iran stance is unlikely to be an obstacle to the “normalization” of relations between the Arabian monarchies and Tehran. These countries have become convinced of the ineffectiveness and destructiveness primarily for themselves of the policy of “maximum pressure” pursued by the past Trump administration¹⁵². Therefore, it is to be expected that the Gulf monarchies will try to soften the new US administration's course toward Tehran.

In general, the Gulf monarchies' commitment to cooperation with the United States, which remains their main security guarantor and one of the most important suppliers of technology, is no longer seen by their leaders as a limiting factor in addressing their foreign policy priorities. Rather, they will insist on demanding special preferences, becoming increasingly confident in speaking with Washington almost as equals, demonstrating their independence, autonomy and, more importantly, their fundamental usefulness to the US as security partners.

In parallel with cooperation with the US, the Gulf monarchies will continue to develop their relations with the largest countries of the non-Western world. The UAE has been (and will continue

¹⁴⁹ *Kouachi I.I.* Arab Nations Condemn Israeli Strikes on Iran // Anadolu Agensi. 2024. 26.10. <https://www.aa.com.tr/en/middle-east/arab-nations-condemn-israeli-strikes-on-iran/3375245>.

¹⁵⁰ *Ibish H.* Gulf Countries Seek to Avoid Getting Drawn into the Israel-Iran Confrontation // AGSIW. 2024. 11.10. URL: <https://agsiw.org/gulf-countries-seek-to-avoid-getting-drawn-into-the-israel-iran-confrontation/> (Accessed: 15/12/24).

¹⁵¹ *Ulrichsen K.C.* Gulf States Choose Diplomacy Facing Region on Fire // AGSIW. 2024. 01.11. URL: <https://agsiw.org/gulf-states-choose-diplomacy-facing-region-on-fire/> (Accessed: 15/12/24).

¹⁵² *Ibish H.* Gulf Countries Seek to Avoid Getting Drawn into the Israel-Iran Confrontation // AGSIW. 2024. 11.10. URL: <https://agsiw.org/gulf-countries-seek-to-avoid-getting-drawn-into-the-israel-iran-confrontation/> (Accessed: 15/12/24).

to be) most active in this area, expanding the geography of the Comprehensive Economic Partnership agreements¹⁵³.

Cooperation with China will increase not only in the traditional areas of hydrocarbon energy and trade. For example, the activities of Chinese companies, primarily in the UAE and Saudi Arabia, in the solar energy sector are expanding. In the UAE, in cooperation with China, the world's largest solar power plant Al Dhafra was launched, plans are underway to create new plants as part of the development of the Khalifa Industrial Zone in Abu Dhabi, a Solar Energy Academy was opened in Dubai; in Saudi Arabia, construction of a solar power plant began with Chinese participation, and agreements have been reached on the implementation of new facilities in the field of solar energy production and energy storage¹⁵⁴. In this regard, we should expect increased pressure from the new Trump administration on the Gulf monarchies (primarily the UAE and Saudi Arabia) to limit their cooperation with China.

Cooperation with Russia will also remain important for the Gulf monarchies. First of all, it concerns the preservation of the OPEC+ agreements, and, according to some estimates¹⁵⁵, their cooperation with Moscow will not meet resistance from the Trump administration. It also remains important for the Gulf monarchies to involve Russia in conflict resolution (primarily in resolving the Palestinian problem, de-escalating the Iran-Israel confrontation and stabilizing the situation in Syria).

Syria

The outlook for Syria is characterized by a high level of uncertainty. Most likely, Syria in 2025 will remain divided into zones of influence, where various forces will continue to compete for control over key regions, oil fields and strategic cities. Under these conditions, the risks of humanitarian crisis, mass migration and local conflicts increase.

The most optimistic scenario envisions an inclusive transitional government that can integrate all major groups, including ethnic and religious minorities. This option can only be realized with significant international support, including diplomatic engagement, financial injections, security and basic social services provision. Given the deep contradictions between opposition factions and the growing chaos, this scenario is difficult to implement.

The most dangerous scenario envisages the strengthening of the most radical Islamist groups, whose ideological attitudes traditionally dominate over pragmatic considerations. This will lead to further destruction of state institutions and the strengthening of extremism in the country and abroad.

Turkey

Ankara will continue its strategy of balancing between Russia and Western countries on the world stage. Prospects for warming relations between Ankara and Washington after the election of the

¹⁵³ *Mason R.* The UAE Leads the Way on Gulf-South America Ties // AGSIW. 2023. 19.12. URL: <https://agsiw.org/the-uae-leads-the-way-on-gulf-south-america-ties/> (Accessed: 15/12/24).

¹⁵⁴ *Calabrese J.* China's Expanding Solar Footprint in the Gulf. // AGSIW. 2024. 13.09. URL: <https://agsiw.org/chinas-expanding-solar-footprint-in-the-gulf/> (Accessed: 15/12/24).

¹⁵⁵ *Ibish H.* For Gulf Countries, There May Be No Clear Preference Between Trump and Harris // AGSIW. 2024. 07.10. URL: <https://agsiw.org/for-gulf-countries-there-may-be-no-clear-preference-between-trump-and-harris/> (Accessed: 15/12/24).

new president will depend on resolving the painful for Turkey issue of Washington's military cooperation with the Syrian Kurds (YPG). No less difficult will be the resolution of differences in the approaches of the parties to relations with Iran and the Israeli-Palestinian conflict. At the same time, it is obvious that the leadership of Turkey and the US will try to reset relations, which are not in the best condition.

Russian-Turkish interaction in the international arena will continue to be built in the spirit of pragmatic partnership based on coinciding interests in a number of areas and taking into account the need to neutralize existing contradictions. The difference in the approaches of the two countries to some international conflicts will determine the potential for increased tension, especially in connection with Turkish arms supplies to Ukraine.

In 2025, Turkey will continue its regional engagement and seek to expand its influence, using both diplomatic and cultural tools, as well as force. The unresolved Cyprus problem and Turkish-Greek tensions in the Aegean will create a permanent risk of growing tension between Ankara and Athens, but the sides will seek to limit its scale.

Ankara will not only remain willing to counter the aspirations of the Syrian Kurds, including through unilateral cross-border military operations, but will also continue to support the armed opposition forces in Syria that toppled Bashar al-Assad's regime in December 2024. Turkey would like to maintain its leading role in Syria by implementing the governance system it has used in the northern controlled areas, as well as participating in the reconstruction of the country through its construction sector. The task of returning 3.5 million Syrian refugees from Turkey gives Ankara additional opportunities to participate in the situation in Syria. Under the current circumstances, dialog with Turkey remains a crucial format for Russia to discuss both Syrian and other regional issues.

Turkey will retain a high interest in special relations with Turkic countries and will continue its policy of stimulating the development of ties between them in accordance with the "Strategy 2040"¹⁵⁶ of the Organization of Turkic States (OTS), which under certain conditions may create competition for Russian cooperation projects with these states.

The economic situation in Turkey will also remain in the focus of Russia's attention because of the growing importance of economic cooperation between the two countries amid tensions between Russia and the West. A worsening crisis in Turkey could create economic risks for Russia as well, particularly with regard to payment for Russian natural gas imported by Ankara.

Iran

In 2025, in the context of sanctions pressure and geopolitical tensions, Tehran will continue its efforts to expand economic and political ties with non-Western partners and increase its presence in international organizations. In foreign policy, Iran will remain focused on strategic partners such as Russia and China, including within the BRICS+ and SCO frameworks.

¹⁵⁶ Turkic World Vision 2040 // Organization of Turkic States. 2021. 13.11. URL: <https://www.turkicstates.org/assets/pdf/haberler/turkic-world-vision-2040-2396-97.pdf> (Accessed: 17/12/24).

Iran will try to maintain détente in relations with the Gulf monarchies. New negotiations with Saudi Arabia are possible, but it is unlikely that Tehran will agree to significant concessions, despite the weakening of its position in Syria after the overthrow of the friendly regime. Given the decision to increase military spending by 200% in 2025, Iran can be expected to use these funds to strengthen its defense capabilities, as well as to help its allies in Iraq, Lebanon, and Yemen, which in Iran's security concept provide a buffer zone far from national borders. The risk of further escalation of tensions with Israel and direct military confrontation will remain high.

The economic situation in Iran will largely depend on sanctions, domestic reforms and global oil prices. The return of the Republicans to power in the US will lead to a tightening of the US sanctions policy. In such a situation, Iran will continue to build up its nuclear capabilities, seeking to enrich uranium to levels close to weapons-grade. At the same time, the possibility of resuming negotiations on the nuclear deal remains. In the case of resumption of negotiations, in addition to the Iranian nuclear program, the discussion may touch upon the problems of Iran's missile program, as well as support for various paramilitary groups in the Middle East.

The general ideological course of the Iranian leadership will remain unchanged: it will continue its policy of tight control over public and political processes. The centrist government of Masoud Pezeshkian, which came into power in 2024, has successfully used reform slogans for attracting the electorate and political struggle, but systemic changes and a real increase in civil liberties are not to be expected.

Israel

The internal political situation in Israel in 2025 will remain tense. There is a high probability of governmental crises that could lead to the collapse of the coalition. Its popularity remains not very high¹⁵⁷, and therefore, in case of parliamentary elections – most likely, extraordinary elections – a change of government to a more moderate one, dominated by centrist and center-right parties is possible. Such a government might perhaps be more willing to compromise in the context of the Palestinian-Israeli conflict, but its foreign policy flexibility would also be severely limited by domestic political considerations and the priority of Israeli security.

Public protests are bound to continue. Although their intensity, as well as support among Israelis, has decreased compared to the pre-war period¹⁵⁸, the factors that provoked them have not disappeared, just been relegated to the background, and have been supplemented by new ones. The key reason is distrust toward the ruling coalition and Prime Minister Benjamin Netanyahu. Judicial reform (in case the government returns to its implementation), the conscription of ultra-Orthodox youth into the army, and the return of hostages (assuming they cannot be released in the near term) will remain issues deeply dividing the society.

¹⁵⁷ Deitch M., Meller R., Gittlerman I.S., Shapira A. Swords of Iron Survey Results — October 2024 // INSS. 2024. 03.11. URL: <https://www.inss.org.il/publication/survey-october-2024/> (Accessed: 17/12/24).

¹⁵⁸ Hermann T., Anabi O. Israelis are Deeply Divided on the Upcoming Supreme Court Hearings. Israeli Voice Index August 2023 // IDI. 2023. 11.09. URL: <https://en.idi.org.il/articles/50752> (Accessed: 17/12/24); Hermann T., Anabi O. Across Political Orientations; Jewish and Arab Israelis Have Negative Feelings Toward the Government // IDI. 2024. 12.08. URL: <https://en.idi.org.il/articles/55520> (Accessed: 17/12/24).

The continuation of low-intensity hostilities in the Gaza Strip is likely. Expansion of the Iran-Israel conflict is still unlikely due to the desire of both sides to avoid significant regional escalation, but temporary outbreaks of tension of varying intensity cannot be ruled out.

Israel's position in the regional arena will remain difficult, but its significant deterioration is unlikely. Given Donald Trump's return to the US presidency, as well as his position on the Palestinian-Israeli conflict during his previous presidential term¹⁵⁹, an increase in the level of mutual understanding between Israel and the US can be expected. There may be a more positive attitude of Jerusalem towards potential American proposals and peace initiatives due to the perception of Donald Trump as a pro-Israeli president.

Conclusions

In 2025, the region's leading states will expand relations with various global players, including Russia, China and India, and join new international platforms. In general, the ideas of multipolarity are gaining quite a wide audience and attracting with the possibility of strengthening independence and implementation of national interests by different states of the region. The policy of diversification of ties pursued by the Arab states will not mean a weakening of their relations with the US and the EU. Rather, it will mean that they will be more demanding in their alliance relations.

In the region, expectations related to the policy of the Donald Trump administration are quite high. The probability of concluding major contracts in the technology sector, which were previously hampered by the policy of the Democrats, is high.

For example, Saudi Arabia may sign an agreement to build nuclear power plants with US participation in exchange for binding agreements on security guarantees. The countries of the region will continue their efforts to manage the negative consequences of the war in Gaza, the Israeli-Iranian confrontation and the Syrian crisis. In particular, Saudi Arabia, Qatar and Turkey have shown their willingness to support moderate opposition forces by stimulating Syria's economic recovery. This will be facilitated by further strengthening of ties between the Gulf monarchies and Turkey, which is turning from a competitor into a partner in the implementation of major infrastructure projects and a source of military technology.

The resolution of the Syrian crisis in 2025 seems problematic. We cannot rule out growing chaos, military clashes between rival and hostile groups, new flows of refugees, and a sharp increase in humanitarian and economic problems. The scenarios for the development of events depend on the effectiveness of the new authorities in Damascus, the interaction of regional and global players and the ability of the international community to prevent further escalation. In general, the high uncertainty of the situation in the Middle East in 2025 and new challenges may become a source of additional problems for Russia. However, it remains a recognized political and economic partner and will retain ties with all participants of international relations in the region.

¹⁵⁹ *Tatiana A. Karasova*. Trump's "Deal of the Century". Will the New US Plan Lead to a Settlement of the Palestinian-Israeli Conflict? // *Free Thought*. 2020. No. 4 (1682). P. 63–74.

Afghanistan

In the internal politics of the country in 2025, further attempts at centralization and consolidation of power are likely with the aim of strengthening the “Kandahar group” headed by Emir Haibatullah Akhundzada. This can be evidenced by the Emir's recent order to transfer all military property in the country under his control. At the same time, attempts by conditionally “moderate” forces associated with the figure of Sirajuddin Haqqani, the leader of the Haqqani Network, a separate faction of the Taliban¹⁶⁰, to persuade the Emir to make some concessions, particularly in the area of women's education, cannot be ruled out either¹⁶¹. However, the softening of the Taliban's policy in this aspect seems doubtful. For the current Afghan authorities to do so, Western countries would have to make serious concessions, primarily such as the lifting of sanctions and the transfer of frozen assets of the former regime, which is unlikely to be possible in the short term.

A dramatic increase in terrorist activity is also unlikely. The ISIL-Khorasan¹⁶² attacks have become much less frequent, and their scale and impact are less tangible. The Taliban demonstrate fairly stable and steady control over the territory of the entire country. They are perceived by the majority of the population as a non-alternative power, despite disagreement with them on certain issues. Absolutely all opposition armed groups have no chance of any success, except for localized sabotage, which allows the Taliban to put them on a par with terrorists.

The threats include possible waves of repatriates from Iran, from where Afghans could be forcibly deported, exacerbating the already difficult economic situation inside the country. There is a large number of criminal and marginalized elements among them. The next year may see another round of water crisis between Iran and Afghanistan, which, however, the parties are quite capable of resolving peacefully.

In relations with Pakistan, the two most acute problems will remain migration and terrorism – the presence of TTP (Tehrik-i-Taliban Pakistan, “Taliban Movement in Pakistan”) militants on the territory of Afghanistan. The Afghan Taliban will inevitably provide support to its associates. In turn, Pakistan can pressure them by expelling illegal Afghan migrants and closing border crossings.

The Taliban's relations with the Central Asian powers, which are predominantly economic in nature, may be put to the test by the water crises caused by the drop in water levels in the Amu Darya due to the construction of the Qosh Tepa irrigation canal in northern Afghanistan. In this regard, there is a clear need to include Afghanistan in the regional dialog on shared water management.

The main sources of revenue for the current regime remain the collection of taxes on trade and transit transactions, and the streamlining of customs payments using the modern electronic financial management system inherited from the previous government. Officially, two Islamic taxes, Zakat and Ushr, have been introduced throughout the country, which are supposed to be used to maintain

¹⁶⁰ Prohibited in the Russian Federation.

¹⁶¹ *Goldbaum C.* Is Afghanistan's Most-Wanted Militant Now Its Best Hope for Change? // The New York Times. 2024. 24.10. URL: <https://www.nytimes.com/2024/10/24/world/asia/afghanistan-sirajuddin-haqqani-taliban.html> (Accessed: 17/12/24).

¹⁶² Prohibited in the Russian Federation.

social justice. A small part of the funds (the flow of which has significantly decreased) comes from outside the country through the UN and donations from Muslim charitable organizations.

The socio-economic situation in Afghanistan will remain a crisis, which is explained by several objective factors. First, Kabul remains internationally isolated and the financial assets of the former regime remain frozen in Western accounts. The Taliban Government is not yet officially recognized by any country in the world due to its failure to meet its commitments to ethno-political inclusiveness, human rights and the fight against terrorism.

Second, the country's already critical unemployment rate has risen since 2021¹⁶³. Afghanistan's traditional employment sectors such as agriculture and trade cannot meet the material needs of the entire able-bodied population, especially in light of the decline in Afghan farmers' incomes following the ban on opium poppy cultivation in 2022. Opportunities for Afghans to earn a living and realize their professional potential in NGO structures are gradually diminishing due to their underfunding or restrictions imposed by the Taliban. The segregationist policy of the new authorities towards women, who are being pushed out of the labor market and entrepreneurship, is also alarming in this regard. Girls' prospects for education beyond primary school are also being limited, jeopardizing their participation in the country's economic life and subsequently leading to additional reductions in GDP.

Thirdly, Kabul is not only facing a reduction in the financial and humanitarian assistance it receives under international programmes¹⁶⁴, but is itself cutting back on related social (e.g., health and education) and economic development spending, prioritizing the strengthening of the force sector¹⁶⁵.

Finally, Afghanistan is located in a challenging natural and climatic environment dominated by mountainous and desert landscapes that complicate economic activities.

All of the above is also realized by regional powers, potential investors in the Afghan economy, which destroys the new regime's hopes for an inflow of money into the country from the implementation of so-called trans-Afghan projects¹⁶⁶ and the development of its subsoil. The implementation of these plans will continue to be sporadic and limited. It is expected that the volume of cargo transportation via the existing railroad networks will increase, their construction will continue slowly, and the mining and oil industries will develop with the participation of foreign companies.

¹⁶³ Afghanistan's Economy has 'Basically Collapsed' // The UN Development Programme. 2024. 07.03. URL: <https://news.un.org/en/story/2024/03/1147387> (Accessed: 17/12/24).

¹⁶⁴ Afghanistan: The Cost of Inaction (June 2024) // The UN Office for the Coordination of Humanitarian Affairs. 2024. 10.06. URL: <https://www.unocha.org/publications/report/afghanistan/afghanistan-cost-inaction-june-2024> (Accessed: 17/12/24).

¹⁶⁵ *Alokozai S., Payenda K.* Understanding Taliban Policies & Priorities from Budget Expenditures & Revenues // PeaceRep. 2023. 31.05. URL: https://peacerep.org/wp-content/uploads/2023/05/PeaceRep-Afghanistan-Research-Network-Reflection_04.pdf (Accessed: 17/12/24).

¹⁶⁶ This refers to transportation and infrastructure projects designed to connect Central Asia and, in the future, the Middle East with South Asian countries. These include: the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline; a network of railroads connecting Iran, Turkmenistan, Uzbekistan, Pakistan and Afghanistan; and the CASA-1000 transmission line network.

In general, taking into account the decreasing volumes of foreign aid, the economic sustainability of the Taliban regime will be linked more to the volume of transit and customs revenues, which in 2023-2024 accounted for the majority of the state budget income, as the collection of taxes from the poor population could not sufficiently cover the needs of the state. All these trends will continue to have a negative impact on the living standards of ordinary Afghans and will lead to a creeping growth of social discontent.

Under the current circumstances, Russia's interest in maintaining political relations with the Taliban is unlikely to be transformed into active economic cooperation, given the persistence of high risks for investment in a complex social environment.

POST-SOVIET SPACE

Geopolitical uncertainty, acute competition between world and regional powers will be maintained at a high level in the post-Soviet space. Along with the US, the EU, NATO and China, such countries as Turkey, Poland and Romania will be increasingly involved in the affairs of the post-Soviet Eurasian states.

Ukraine

The conflict in Ukraine will continue to have a significant impact on the situation in the region, which remains the key crisis, not only impacting the situation in the entire post-Soviet space, but also transforming modern international relations, a factor affecting the contours of the new emerging world order¹⁶⁷. The security interests and ambitions of Russia and Western countries continue to clash in Ukraine. The formation of a new Eurasian security architecture largely depends on the results of this clash. Achievement of the Ukrainian conflict goals announced by Russian President Vladimir Putin back in February 2022 will clearly demonstrate that Russia is the key broker and guarantor of security in Eurasia. Conversely, failure to achieve these goals will largely devalue the importance of Russian military guarantees for other post-Soviet space states. This is particularly acutely felt by Russia's allies that are in a weak position in regional conflicts (for example, Armenia, where the rather irresponsible in terms of geopolitical consequences for the country rhetoric and foreign policy maneuvering of the country's Prime Minister Nikol Pashinyan is perceived with understanding by the population largely because Russia is currently viewed as a weakening power and, therefore, not a reliable guarantor of security). But not limited to that. It is much preferable to build long-term relations in various spheres with the winner. Therefore, the course and outcome of the Ukrainian conflict make a significant contribution to the possibilities for Moscow to spread its influence (including political, diplomatic, and soft power) not only in different sub-regions of post-Soviet Eurasia, but also in the countries of the Global South.

There are two main scenarios for the conflict in **Ukraine** in 2025. The least probable, with the leaving of office of Biden's administration, is the inertial scenario, which assumes the continuation of hostilities with a step-by-step increase in the potential of strikes deep into Russian territory. In the US and many Western countries, a significant part of the ruling elite is somewhat disappointed with the performance of the Ukrainian armed forces on the battlefield or fears an uncontrollable escalation of the conflict with Russia. In the US and Europe, elites are still politically incapable and morally unprepared to allow Ukraine's defeat. Such approaches are largely a consequence of the large-scale investment of political, military and financial resources by Western countries in Ukraine. Too serious bets have been placed on Ukraine. Narratives were formed that hyperbolized the conflict to the existential level – against the forces of “absolute evil”, within the framework of the dichotomous confrontation between “democracy” and “authoritarianism”.

However, representatives of the new administration in the US are much more focused on the issues of world politics that are central for Washington – maintaining global dominance in the confrontation with China and maintaining their own leadership within the country in the future. As early as January 2025, the Ukrainian case will become a rather problematic and even burdensome

¹⁶⁷ *Eduard G. Solovyev*. The Role of the Ukrainian Crisis in Formation of the New World Order // *Russia and New States of Eurasia*. 2023. No. 4. P. 11–23.

political asset in this context. A conflict in which Ukraine cannot win can complicate the solution of priority tasks for the new US administration. And since there are fewer and fewer illusions about the possibility of inflicting a strategic defeat on Russia “on the battlefield” using Ukraine and thus decisively weaken the growing ties between Beijing and Moscow, the solution will probably have to be found in organizing a negotiating track and stimulating the negotiating activity of Moscow and Kiev, including by the threat of a sharp escalation of the conflict.

The most likely scenario at the first stages of the new administration's work is attempts to “negotiate from a position of strength”. Several plans for such negotiating strategies are circulating in the information space. They differ in details, but the essence is generally summarized in the following main points. Freezing of hostilities on the current line of contact. Providing Ukraine with the necessary arms and some kind of security guarantees to deter Moscow – mostly Kyiv's invitation to NATO is being discussed (namely Kyiv, because in this case it is not clear at all to which territory the bloc guarantees can be extended), either immediately or with a certain time lag (10 years or more). Such proposals do not correspond with the Russian position articulated (in a speech at the Russian Foreign Ministry on June 14, 2024) by President Vladimir Putin on the possibility of organizing a negotiation process. Vladimir Putin confirmed the readiness to conduct negotiations on the basis of the principles that were agreed upon in Istanbul. The key principle is the non-aligned status of Ukraine and the deprivation of any significant military potential, as well as of the possibility of any form of “military development” of Ukrainian territory by NATO countries. In addition, the need to take into account the “realities on the ground” is clearly stated. These are changes in the Constitution of the Russian Federation after the referendum in the Donetsk and Lugansk republics, Kherson and Zaporozhye regions (not to mention Crimea), as well as denazification – the impossibility to tolerate the situation when Ukrainian legislation prohibiting the Russian language, Russian media, Russian culture, and the Ukrainian Orthodox Church remains in place. At the same time, the key demands of the Russian Federation to the Western countries to stop NATO's advancement to the East, put forward in December 2021, have not been abandoned either.

Since the United States obviously does not show and is unlikely to show any desire to reach an initial conjugation of important initial positions for the start of the negotiation process (not to mention the desire of official Kiev to return to the borders of 1991 or at least February 2022), Washington will have to demonstrate a “position of strength” after the prospects for some quick results and compromises have come to naught.

If Kiev is not ready to compromise, Washington may exert pressure to correct the position of the Ukrainian leadership, primarily by limiting financial and military aid, as well as holding elections (the terms of office of the president and the Verkhovna Rada have expired in 2024). It will not be easy to bend Kiev to serious compromises.

Moscow does not depend on Washington in any way. If the unacceptability of the approaches promoted by the US is fixed by Russia, it is possible that Washington will spin a new escalation, which would involve increased sanctions pressure from Western countries on Russia, new massive supplies of Western weapons to Ukraine in order to put pressure on Moscow.

However, the probability that the Russian authorities will make serious concessions is low. Maintaining stability inside the country and preserving the established consensus focused on

achieving at least minimum victory conditions (which are exactly what the Russian president announced in June 2024) will prevail over vague formulations (“non-inclusion of Ukraine in NATO” in the next 10 or slightly more years, “easing” or “lifting” of anti-Russian sanctions that can easily be reintroduced, etc.).

And then in the second half of the year a scenario of rapid escalation of the conflict around Ukraine and the formation of a large-scale international military-political crisis followed by a certain plateau of normalization with the search for mutually acceptable security solutions in Europe or even Eurasia without or with the formal participation of Ukraine and with a possible broad internationalization of these efforts is not excluded.

Thus, the path to a lasting resolution of the Russia-Ukraine conflict may emerge through a broader agreement on the contours of European security. And in such a scenario, broader geopolitical arrangements may precede or occur in parallel with a final resolution of the Ukraine crisis. This process is unlikely to be rapid and is therefore likely to go beyond the forecast period (2025).

Under certain circumstances, the scenario of Ukraine's military defeat as early as 2025 is possible. However, it requires, in addition to the formation of a number of external trends, additional resources and organizational efforts on the part of Moscow, and at the time of writing the forecast is not considered as a basic one.

Ukraine's political system, despite the public's war fatigue and declining trust in the current government, remains fairly stable. Consolidation of power in the hands of President Zelensky has reduced the role of the Verkhovna Rada and limited the importance of the so-called Ukrainian “oligarchs” in the country's political system. Opposition forces (except for the even more pro-Western opposition) are actually completely pushed out of the legal political field.

Volodymyr Zelensky's loyalty to the West and the preservation of the current political balance of power during the war make it possible for him to remain in power with the financial and political support of the US and the EU. However, Ukraine is completely dependent on Western aid (financial and military) under the current circumstances. The determining factor not only for maintaining the combat capability of the Ukrainian army, but also for the functioning of the Ukrainian state and economy are foreign loans and constant foreign aid, which has reached unprecedented volumes. Financial support from the US, IMF, WB, EBRD, EU, foundations, individual governments, companies and individuals, as estimated by international institutions, has already exceeded \$300 billion in 2022-2024. Kiev's revenues in 2024 and in the approved budget for 2025 are almost twice as low as its expenditures, and the country's budget is balanced solely thanks to Western financial support.

Over the last 10-15 years, Ukraine's economy has undergone significant structural shifts. These changes developed in two directions - from big business to small business and from energy-intensive heavy industry to agriculture¹⁶⁸. Despite significant socio-economic difficulties, and degradation of industrial potential, the Ukrainian economy demonstrates a fairly high level of adaptability to external and internal shocks. But the ability to self-development is practically lost. A

¹⁶⁸ *Mikhail I. Krivoguz. Ukraine's Economy in Conditions of Martial Law // Russia and New States of Eurasia. 2024. No. 3. P. 9–29.*

certain growth potential after the end of hostilities can be demonstrated only in case of active support from outside and massive foreign investments.

Moldova

High conflict potential will also remain in **Moldova** (Republic of Moldova, RM). A deep division between elites and society¹⁶⁹ persists in the country, which was clearly demonstrated by the presidential election in the fall of 2024, which was won with difficulty by incumbent President Maia Sandu. Parliamentary elections should be held in Moldova by September 2025. And taking into account that RM is a parliamentary republic, the elections claim the status of the main political event of the year.

Maia Sandu and the pro-Western forces achieved their victory in the elections and in the referendum on changing the country's Constitution (amending it to fix the course towards accession to the EU in the future) through the active use of administrative resources and with the votes of Moldovans living in Europe. Inside Moldova, according to the Central Election Commission, the incumbent president was supported by a minority of the voters who participated in the elections. As a result, Maia Sandu became the “president of the diaspora”, as her support was significantly higher among Moldovans living in the West¹⁷⁰. The unconvincing results of the referendum and presidential elections have put into question the moral and political authority of the president and the current government. In 2025, Maia Sandu will have a difficult task to legitimize herself in the eyes of Moldovan citizens, to make her be perceived as the president of all Moldovans. However, given the time crunch in which the authorities have found themselves, there is a high probability that instead of working on mistakes, a new attempt to exploit to the maximum the theme of the fight against corruption and the development of democratic institutions will follow in an attempt to raise the ratings of the ruling party and cause reputational damage to the opposition. Maia Sandu is likely to start another stage of pushing political competitors outside the legal framework on the eve of the parliamentary elections while talking about the fight against corruption. As for democratic institutions, the 2024 presidential election clearly demonstrated that the tactics chosen by the authorities in the short term are oriented more towards manipulating the electoral system and using administrative resources.

The situation with the parliamentary elections will also be influenced by the socio-economic situation in the country. Despite financial support from the European Union and loans from the IMF and other international financial institutions, the economic situation in the country remains difficult. Prices are rising, the problem of poverty of a significant part of the population is aggravating, and the country's GDP is showing weak dynamics.

Already after the end of the presidential elections, several new parties emerged in RM. Deputy Prime Minister Andrei Spinu left the presidential party Action and Solidarity, aiming to create his own political force in the near future. Some representatives of the opposition also started to develop their own political projects. In particular, a new party Heart of Moldova was created after the

¹⁶⁹ See about this: *Eduard G. Solovyev*. Moldova: Turn to the West // In the book: Post-Soviet states at the present stage: internal political dynamics and the search for development paths. / Ed. by Eduard G. Solovyev – Moscow: IMEMO RAS, 2024. P. 63–72.

¹⁷⁰ *Dmitriy Shevchenko*. Sandu – President of the Moldovan Diaspora // Strategic Culture Foundation. 2024. 04.11. URL: <https://www.fondsk.ru/news/2024/11/04/sandu-prezident-moldavskoy-diaspory.html> (Accessed: 17/12/24).

presidential elections by Irina Vlah, the former president of Gagauzia and a candidate for the Moldovan presidency in the last elections¹⁷¹. The emergence of more and more new parties is gradually blurring the political landscape of the country. The results of the parliamentary elections do not rule out the need to create a broad coalition of political forces to form a capable government or even to hold new early elections in case the political forces are unable to reach a mutual understanding on the principles of forming such a coalition. If Maia Sandu and pro-European parties lose the elections (which seems probable to a significant number of Russian and Moldovan experts), the political situation in the country may become even more complicated. Separate rule in conditions of a deep split of the elites will lead to the fact that Maia Sandu will look for ways to dissolve the parliament, and the parliament, in turn, will look for ways to remove the president from power.

However, at least in the first half of 2025 Maia Sandu and her supporters will definitely have a decisive influence on shaping of Moldovan domestic and foreign policy and will actively develop the policy of Moldova's integration into the legislative, transport and energy system of the European Union (part of the costs of such a transition will be covered from the EU funds). As early as January 2, 2025, the euro will be used as the base currency for setting the official exchange rate of the Moldovan leu, replacing the US dollar. According to the National Bank of Moldova, the use of the euro as the base currency is aimed at harmonizing Moldovan financial structures with EU standards.

Military and military-technical cooperation with the EU and NATO will also continue to be strengthened, despite the neutral status of the country enshrined in the constitution. Maia Sandu's government has been gradually strengthening the national army over the past few years. According to the Defense Strategy adopted in the summer of 2024, Moldova plans to increase the share of military expenditures to GDP from 0.55% to 1% by 2030. NATO and the European Union are showing interest in the development of military cooperation. The intensification of official Chisinau's cooperation with Romania and other NATO countries in the sphere of defense and security actually leads to the external control of Moldovan force structures.

The EU has significantly increased the volume of military aid to Moldova: in 2021-2024, EU support for the armed forces of Moldova amounted to €137 million. According to EU Ambassador to Chisinau Janis Mažeix, this made the Republic the second largest recipient of military support after Ukraine¹⁷². NATO's Defence Capacity Building Package for Moldova includes some 20 areas of cooperation, including material and technical supply standardization and training in such areas as resilience, cyber defence, energy security and strategic communications. In 2023-2024, Moldova received \$80 million from NATO for army modernization, and this flow of assistance will increase. Some NATO cargo transit to Ukraine passes through Moldovan territory.

Religious relations are also gradually turning into a factor of political struggle¹⁷³. The expansion dynamics of the Romanian Orthodox Church in Moldova is growing, through which Maia Sandu

¹⁷¹ The Former Head of Gagauzia Announced the Creation of a New Political Party // RIA Novosti. 2024. 05.11. URL: <https://ria.ru/20241105/gagauziya-1981909018.html> (Accessed: 17/12/24).

¹⁷² Moldova has Become the Second Country after Ukraine in Terms of Military Support from the EU // Eurasia-Expert. 20.11.2024. URL: <https://eurasia.expert/moldova-stala-vtoroy-posle-ukrainy-stranoy-po-obemu-voennoy-podderzhki-so-storony-es> (Accessed: 17/12/24).

¹⁷³ For more details, see: *Sergei P. Dontsev*. Politics and Religion in Modern Moldova // Post-Soviet Studies. 2024. Vol. 7. No. 2. P. 193-202.

solves political issues, as the propaganda of Moldova's accession to Romania is widespread within Romanian church communities.

The relations with Tiraspol will remain a special political problem for Chisinau. The unresolved status of **Transnistria** poses a significant danger in terms of consequences. Moreover, the probability of an attempt of “final solution” of the Transnistrian problem by official Chisinau will increase with the strengthening of the pro-Western vector of development by the ruling Moldovan elite.

When President Maia Sandu took office in 2020, political contacts with Transnistrian leadership were suspended. A number of analysts emphasize the growing threat of unfreezing the conflict on the Dniester. Chisinau is pushed towards this both by Western European politicians, who have repeatedly stated recently that the Cypriot formula (the possibility of Moldova's accession to the EU without Transnistria, as Cyprus did without Northern Cyprus) is not relevant in the Moldovan case, and by Kyiv, which is interested in a decisive blow to Transnistria from the rear and in inflicting irreparable reputational damage on the Russian Federation in case of renewed armed confrontation¹⁷⁴.

Only 2 years ago, Chisinau supposed accession to the EU without Transnistria (based on the so-called Cyprus scenario). However, recently the situation has changed. Moldovan leadership quite favorably perceived political signals from Europe. And following the official representatives of the EU, the Moldovan authorities began to promote the ideas that both banks of the Dniester should join the EU at the same time and the settlement of the Transnistrian conflict should take place in parallel with Moldova's integration into the EU. Official Chisinau plans to restore full control over Transnistria by 2030, and at that time Moldova should become a full member of the EU.

Meanwhile, unlike Ukraine, there is no public demand for the settlement of the territorial conflict by force in Moldova: over a number of years more than half (according to some polls - up to 80%) of the citizens of the Republic have been steadily opposing the military scenario in Transnistria. Official Chisinau, despite repeated offers of assistance from Volodymyr Zelensky, prefers to avoid radical steps for the time being and hopes to influence the Transnistrian elites and population through economic measures. The state of the Moldovan army and the obvious unwillingness of the majority of citizens of RM to solve the Transnistrian issue by force stop the Chisinau authorities. This does not prevent Maia Sandu from constantly increasing economic and administrative pressure on Transnistria, which is squeezed between Moldova and Ukraine.

Chisinau's efforts are aimed at forcibly bringing the Transnistrian trade and economic activity in line with Moldovan legislation. Chisinau has brought Transnistria to the point that everything in the economic and financial spheres should be done according to the laws of the Republic of Moldova. From the point of view of the Moldovan Bureau of Reintegration, the totality of innovations will gradually create conditions for the inclusion of Transnistria into the unified economic and then political space of Moldova. For now, Sandu is trying to bring Transnistria under control and integrate it into Moldova without war – instead of negotiating with Tiraspol, Chisinau is now setting rules that Transnistria must abide by. This trend will only intensify in 2025.

¹⁷⁴ Elena Tsedilina. Ukrainian Syndrom of Chisinau // Russia and New States of Eurasia. 2024. No. 2. P.10.

Gagauzia is also a problem for the current Moldovan authorities. There is a clear desire of the leadership of the Republic of Moldova to gradually close the dispute about the autonomy of Gagauzia, which seems to have been resolved long ago. The autonomous territorial unit (ATU) Gagauzia has existed since December 1994. At that time, the Moldovan parliament adopted a law on the special legal status of Gagauzia (Gagauz-Yeri). After the administrative reform in Moldova in 1999, the borders of the ATU and the very existence of Gagauzia were finally enshrined in the Constitution of RM. In May 2023, when Yevgeniya Gutsul, who represents the opposition forces, was elected as bashkan (head) of Gagauzia, the authorities of the Republic of Moldova began to exert increasing pressure on the National Assembly in Comrat, the capital of Gagauzia. All economic and political means were used, including military drills on the territory of the autonomy.

The Gagauz autonomy did not support Maia Sandu in the 2024 elections. Gagauz leader Gutsul rather demonstratively emphasizes her special relations with the Russian political elites. She managed to unite Gagauz politicians, some of whom were previously ready to make quite serious compromises with Maia Sandu. In response, the Chisinau authorities in November 2024 conducted searches in the houses of a number of top-level Gagauz politicians. No specific charges were brought against the Gagauz politicians. But it is obvious that Gagauzia is gradually becoming a new hotbed of tension¹⁷⁵. On the eve of the 2025 parliamentary elections, relations between Chisinau and Comrat may become even more strained. Predictably, accusations of Gagauz politicians of corruption and cooperation with Russia (which the current Moldovan authorities practically equate with high treason) will follow. Gagauzia will counter-accuse the Chisinau authorities of corruption and that the pro-Romanian Maia Sandu poses a threat to the sovereignty of Moldova.

Belarus

Against the background of its neighbors – Ukraine and Moldova, Belarus (Republic of Belarus, RB) will look like an island of stability and predictability. The main event on the domestic political agenda in 2025 will be the presidential election to be held on January 26. Despite the registration of 7 initiative groups to promote their candidates (2 candidates later announced their withdrawal from the struggle for the post of president), the main contender for this post remains the incumbent president of Belarus, Alexander Lukashenko. It is unlikely that this time the possible retention of the presidential post for Alexander Lukashenko will cause a sharp reaction in the country. This is largely due to the current geopolitical situation around the borders of Belarus and the tough sanctions pressure on it by the EU and the US, as well as to the active work of the authorities with the population.

The parliamentary and local council elections in 2024 gave the Belarusian authorities an opportunity to test the loyalty of the society¹⁷⁶ and demonstrated that the situation was under control. Besides, this time there is no mass demand for changes in the society; rather, the theme of stability and predictability has been actualized. The Belarusian elite has fully recovered from the shock of the post-election protests of 2020. Moreover, there is no organized force in the country capable of leading and repeating mass demonstrations.

¹⁷⁵ Alexey N. Smirnov. Gagauzia: Struggle for Autonomy in the Conditions of Geopolitical Crisis // Russia and New States of Eurasia. 2024. No. 3 P. 58.

¹⁷⁶ For more details, see: Alexander Gronsky. Parliamentary and Municipal Elections in Belarus // Russia and New States of Eurasia. 2024. No. 1. P. 67–77.

The opposition has disintegrated into a number of groups that have been pushed abroad and are seeking financial support from Western countries. Svetlana Tikhanovskaya, proclaimed by the Belarusian opposition as the “legitimate president” of Belarus and “national leader”, will definitely lose this status in 2025 (according to the Belarusian legislation, the term of presidential powers is 5 years). The opposition has no other consolidating figures. Opposition groups abroad are gradually degenerating, competing with each other in the struggle for resources allocated by Western countries. It is obvious that none of the Belarusian opposition figures will be able to become a serious competitor for Lukashenko in the near future.

Nevertheless, the Western countries will continue to support the Belarusian opposition, settled in the countries of Europe. This is also evidenced by the position of the official structures of the European Union. After the revision of relations with Belarus in 2020 and in the light of the “involvement of Lukashenko's regime in the Russia's special military operation in Ukraine”, the EU assistance program was adjusted towards non-state actors. This allowed for substantial support in 6 key sectors: civil society, human rights, independent media, education, culture, and small and medium-sized enterprises (with the “in exile” clause). In 2020-2024, financial assistance amounted to almost €140 million under the Neighborhood, Development and International Cooperation Instrument (NDICI) alone. Brussels supports alternative educational and cultural projects that contribute to the preservation of Belarusian identity. European officials make forward-looking promises: “As Belarus embarks on the path of democratic transition, the EU will provide immediate and long-term support to help stabilize the economy, reform institutions, and benefit citizens and society as a whole. For this purpose, the EU is ready to provide Belarus with a significant investment package of up to €3 billion” with the help of the EIB and the EBRD. The EU expects that in this case the IMF and the World Bank will also strengthen their support to the country¹⁷⁷. The weight of the democracy support package is not very impressive, apparently because even European officials do not believe in the near-term prospect of political transformation.

However, in order to bring this prospect closer, attempts to create some kind of paramilitary formations of Belarusian migrants along the lines of the Kalinowski Regiment will continue. Pressure on Belarus, political and strategic, will grow along with the intensification of NATO-generated tensions along the Russian and Belarusian borders.

In this context, Belarus will continue to strengthen security cooperation with Russia. Minsk is concerned about the intensification of activities of NATO member states on its borders and on the western borders of the Union State of the Russian Federation and Belarus. Belarus will strengthen its political and economic cooperation with Russia not only in the format of the Union State, but also in the EAEU and CIS, which contributes to the stabilization and growth of its economy and the development of society, despite the increasing sanctions pressure on the country.

The coming of Donald Trump to the White House brings a number of uncertainties, including for Belarus. During the first presidential cadence of Donald Trump (2017-2021), Minsk and Washington went from active cooperation to the point of declaring Belarus a “bastion against

¹⁷⁷ The European Union and Belarus // Delegation of the European Union to the Republic of Belarus. 2024. 28.11. URL: https://www.eeas.europa.eu/belarus/es-i-belarus_ru?s=218 (Accessed: 19/12/24).

Russian neo-imperialism”¹⁷⁸ to Washington's support of mass protests against the re-election of Alexander Lukashenko. That is, the development of relations in order to strengthen the influence on the civil society track and to gain leverage for further internal destabilization is the path that the US (and its European allies) went through during the first presidential term of Donald Trump. If preconditions for unfreezing relations with the West emerge in 2025, Minsk will have to analyze the situation very carefully in order not to return to the rut that has already been followed once, and led to the crisis of 2020.

Relations with the closest neighbors will also complicate normalization with Western countries. The Baltic states and Poland are extremely aggressive towards the Belarusian leadership. The main forces of the Belarusian opposition are concentrated in Lithuania and Poland, which strengthens the negative rhetoric of Vilnius and Warsaw. Minsk claims that armed formations of the Belarusian opposition are being prepared on the territory of the nearest neighbors (except Russia), and they will try to carry out destabilizing actions during the election campaign or after the results of the presidential election have been announced. Russia has already announced the necessary assistance to the Belarusian security forces in case of aggravation of the situation.

Belarus has traditionally maintained good relations with China. The Belarusian authorities will also continue their policy of incorporating into Global South organizations such as the SCO, BEP, and BRICS, as well as expanding their economic ties with Asian and African countries, as this is vital to replace broken trade ties with European countries and to diversify the foreign trade.

¹⁷⁸ US State Department: Belarus is a “Bastion against Russian Neo-Imperialism” // NA EurAsia Daily. 2018. 20.10. URL: <https://eadaily.com/ru/news/2018/10/20/gosdep-ssha-belorussiya-bastion-protiv-rossiyskogo-neoimperializma> (Accessed: 19/12/24).

SOUTH CAUCASUS

The South Caucasus (SC) will remain a place of political confrontation of regional and global powers, so the probability of aggravation of existing intra-political or interstate contradictions and disputes in the region in 2025 is quite high. First of all, this refers to the situation that emerged in the region after the Second Karabakh War in November 2020 and the one-day war in 2023. Azerbaijan, which restored its territorial integrity as a result of the conflict, has since claimed leadership in the region, promoting its own vision of the region's development. The optimistic scenario assumes that Azerbaijan and Armenia will conclude a peace treaty. But such a prospect is not so obvious in the context of continuing contradictions between official Yerevan and Baku, unresolved problems – mainly territorial. The process of demarcation and delimitation of the border between the states has not been completed since the cease of existence of unrecognized Nagorno-Karabakh in January 2024. The Armenian constitution, from which Baku demands the exclusion of provisions that, in its opinion, could create legal grounds for Armenia's territorial claims against Azerbaijan, remains a subject of dispute.

External (including extra-regional) forces actively involved in the affairs of South Caucasus can also create obstacles to the achievement of sustainable peace by Armenia and Azerbaijan. Turkey, which supported Azerbaijan in its confrontation with Armenia both diplomatically and by supplying arms, sharply increased its role in the region after the war, continuing to play an independent game. This will encourage Iran, which has “largely remained on the periphery of regional change”¹⁷⁹, to increase its activity in South Caucasus.

The European Union Mission in Armenia (EUMA), formed on February 20, 2023, by the decision of the EU Foreign Affairs Council in response to Armenia's official request, does not generally contribute to the reduction of tension. The mandate of the Mission expires on February 19, 2025, and the EU will try to extend the presence of its observers in South Caucasus. They are planned to be deployed not only in Armenia's territory adjacent to Azerbaijan, but also along the Armenian-Turkish border. In the context of Turkey's uneasy relations with France and the EU, as well as Azerbaijan's demands to withdraw “third country observers” (i.e. EU missions) from the zone of contact with Armenia, this European initiative is interpreted by the Azerbaijani-Turkish tandem as anti-Azerbaijani. Russia's negative assessment of the EU's actions is also predictable: the EU, in Moscow's opinion, is ultimately aimed at forcing Russia out of the process of normalization of Azerbaijani-Armenian relations and then undermining Russia's geopolitical position in the region.

Georgia may become a potential hot spot, where the internal political division of society and active interference in the internal affairs of the republic by the West, which is trying to ignite another colour revolution there, may give an additional impetus to the regional instability.

Russia's priority tasks in the sphere of international and political interaction with the countries of the South Caucasus will be: a) countering potential armed conflicts and promoting initiatives aimed at developing constructive dialog between the countries of the region; b) development of a cooperation mechanism independent of the global geopolitical conjuncture, including in the 3 + 3 format (three South Caucasus countries plus their three closest neighbors, including Iran, Turkey

¹⁷⁹ *Razil I. Guzaerov, Ilya D. Baskakov.* Iran and Turkey after the Second Nagorno-Karabakh War // *Russia and New States of Eurasia.* 2024. No. 3. P. 148.

and Russia); c) implementation of a package of trilateral (Armenian-Azerbaijani-Russian) agreements at the highest level on the normalization of Armenian-Azerbaijani relations; d) development of transport and logistics projects that meet Russia's interests – primarily the North-South International Transport Corridor (ITC), which will retain its importance for interstate relations in the South Caucasus, as well as for issues related to regional transportation routes.

Russia will have to face more competition in the South Caucasus, which will stimulate efforts to maintain its position in the South Caucasus region, which is of great strategic importance to Moscow. Russia's interest in maintaining security in the South Caucasus will make Russia's efforts to mediate and resolve local conflicts more effective. Steps aimed at intensifying the participation of Russian capital in the basic sectors of the regional economy will be of great importance. Russia's tasks will also be related to the prospects of integration into the South Caucasus transport and energy corridor and attracting the countries of the region as alternative participants in Russian energy and transportation logistics projects.

Turkey's policy in South Caucasus will take into account the general change in the geopolitical situation in Eurasia due to the conflict in Ukraine, as well as the fact that Russia's resources will be largely diverted to the Ukrainian crisis, while trying not to neglect the Caucasus. This will give Turkish politicians reason to hope that new opportunities will open up for them in the South Caucasus, both in the economic sphere and in areas related to regional security.

Turkey will try to integrate into transportation and logistics projects, including energy projects, common with the South Caucasus, bypassing Russia and Iran. As part of these efforts, it will rely on Azerbaijan and Georgia, which (together with Kazakhstan) will be entrusted with the task of constructing the Trans-Caspian International Transport Route (the Middle Corridor). Its realization implies weakening of Russia's influence in the Black Sea and South Caucasus, alienation of Armenia from Russia and, accordingly, strengthening of the positions of Turkey and its Western partners.

Iran's strategy to achieve economic and political benefits from cooperation with South Caucasus countries will be coupled with the imperative of countering rivals and competitors.

Having recognized the territory of the former Nagorno-Karabakh Republic as part of Azerbaijan, Iran will claim the role of mediator in the resolution of the Armenian-Azerbaijani dispute, emphasizing the need to discuss the unresolved issues within the framework of political dialogue and in the 3 + 3 format. Iran will be particularly interested in the projects of transport corridors in South Caucasus. Here Iran intends to initiate its own transit strategy, which will include joint transport projects with Azerbaijan. These are the North-South ITC, as well as the alternative laying of the so-called Zangezur corridor through the territory of Armenia and the Aras corridor through the territory of Iran bypassing Armenia.

Taking advantage of Russia's temporarily weakened attention to the South Caucasus, the **EU** will make efforts to intensify its activities there. It is possible that the European Parliament will try to bring Armenia and Azerbaijan closer to signing a peace treaty by offering both countries the prospect of closer integration with the EU.

The US will remain committed to containing Russia in the region and minimizing its influence. Given the uncertainty of the situation in Georgia and the political independence of the Georgian leadership, the US may shift the emphasis in the development of allied relations to Armenia, while at the same time keeping Georgia in the focus of its attention. To achieve their goals, the US and its allies will continue to actively exploit the Armenian national trauma, pedaling the idea of Russia's unreliability as an ally, allegedly favoring Azerbaijan to the detriment of Armenia's interests.

Situation in individual South Caucasus countries

Azerbaijan

The extraordinary presidential elections held in Azerbaijan on February 7, 2024, in which the incumbent head of state Ilham Aliyev won a convincing victory (92.12% of voters cast their votes for him with a turnout of 76.73%), testify to the non-alternative nature of the internal political consensus achieved by Azerbaijani society after the war in Karabakh. This, in turn, opens up new opportunities for the effective promotion of Azerbaijan's interests both regionally and internationally.

The format of Azerbaijan's relations with Russia will be determined by the Declaration of Allied Cooperation signed in February 2022, as well as by the documents adopted during the visit of the President of the Russian Federation to Azerbaijan in August 2024. According to them, in addition to issues related to the development of trade-economic and military-political relations, attention will be paid to the sphere of humanitarian cooperation.

The priority of Azerbaijan's foreign policy will remain Turkey, relations with which will continue to develop within the framework of the “one nation, two states” concept. Within the framework of interaction with Turkey, Azerbaijan will make efforts aimed at strengthening the potential of the Organization of Turkic States. The military-political sphere will occupy an important place in the cooperation between the states, which is likely to prevail over such an important area of their interaction as economic cooperation. At the same time, the prospect of establishing Turkish military bases in Azerbaijan, in which Turkey would undoubtedly be interested, seems unlikely. However, this does not meet the national interests of Azerbaijan, which seeks not to upset the balance of power in the region and not to spoil relations with either Russia or Turkey's competitors (Iran and even Israel), on which the maintenance of security in the region depends.

Azerbaijan will try to build new relations with Iran, emphasizing regional connectivity and infrastructure projects. This will also fit into the new Iranian strategy aimed at normalizing relations with neighboring states. At the same time, Azerbaijan will retain its role as Israel's most important oil supplier and maintain military cooperation with this Middle Eastern state, which is important for its national security. Azerbaijan will also continue to develop partnership relations with such major Middle Eastern states as Saudi Arabia, the United Arab Emirates, and others.

Azerbaijan's uneasy relations with the EU, which culminated in a statement by the Azerbaijani delegation to the Parliamentary Assembly of the Council of Europe (PACE) in January 2024 that it would suspend its participation in the work of this structure “as a sign of protest against double standards in relation to Azerbaijan,” will not prevent the Republic from remaining among the leading suppliers of natural gas to EU member states.

Armenia

Judging by the political course of the country's leadership headed by Prime Minister Nikol Pashinyan, Armenia seems to have come to terms with the loss of unrecognized Nagorno-Karabakh, but it perceives Azerbaijan's claims to the disputed areas on the border between the two countries quite painfully, and especially the pedaling of the topic of the so-called Zangezur corridor, which would run through the territory of Armenian Syunik. To be more precise, it is not so much the prospect of laying transport communications that causes rejection, but rather the desire of Baku and Ankara to give them an extraterritorial character.

The Republic will continue to make efforts to put into oblivion the problems (Genocide, Karabakh) that in the past, as the politicians in power believe, complicated Armenia's international contacts and created obstacles to the expansion of the Republic's interaction with the partners most beneficial to its economy. Thus, the problem of Nagorno-Karabakh is supposed to be considered within the framework of the idea put forward in April 2024 by the head of the republic Nikol Pashinyan about the incompatibility of "real and historical Armenia", according to which "the concept of self-determination and the status of Karabakh" turned out to be "misunderstood" by the Armenian society¹⁸⁰. The leadership of the Republic sees its prospects in normalizing relations with its neighbors and maintaining a balance in relations with Russia, Iran, the EU and the US. However, in 2025, Armenia's foreign policy will have an increasingly pronounced pro-Western vector, with the prospect of building special strategic relations with a number of Western countries (primarily France and the US).

Trade and economic interaction between Armenia and Russia will not undergo significant changes in 2025 and will maintain its development dynamics largely due to cooperation within the EAEU framework, membership in which is beneficial to Armenia and therefore not yet questioned by its leadership. Russia will retain its obligations to ensure Armenia's security, both bilaterally and through the CSTO. At the same time, the Armenian leadership will continue to limit its participation in the CSTO ("freezing" its participation) and will try not to participate in the Organization's activities.

Armenia's relations with the EU, which have been actively improving since the Second Karabakh War, will gain momentum. A landmark event stimulating this process was the adoption in March 2024 by the European Parliament of a resolution that allows Armenia to be granted the status of a candidate country for EU membership, provided that the country "pursues the path of stable reforms that strengthen its democracy." In such case, the EU promises to take relations with Armenia to a new, closer level¹⁸¹.

Georgia

In Georgia, the most important event of the passing year 2024 was the parliamentary elections held on October 26, the winner of which was the Georgian Dream party, which has been in power in

¹⁸⁰ *Matanat Nasibova*. "Real" Armenia and the Realities of Yerevan // *Caliber.az*. 2024. 23.11. URL: <https://caliber.az/post/realnaya-armeniya-i-realii-erevana?ysclid=m3ymy56idz345321231> (Accessed: 19/12/24).

¹⁸¹ *Gone on the Offensive* // *Kommersant*. 2024. 21.06. URL: <https://www.kommersant.ru/doc/6788266> (Accessed: 19/12/24).

Georgia since 2012, winning 89 seats in the parliament (53.93% of votes)¹⁸². The results of the elections were questioned by the opposition, which started mass protests in Tbilisi on October 29. Despite this, the new parliament has scheduled presidential elections for December 14, 2024, and they will be held according to new rules – not by direct vote, as before, but by the decision of a panel of 300 electors from among members of parliament and local authorities.

Although Georgia received the status of a candidate country for EU accession in 2023, negotiations on its membership will not be held in the near future due to the EU leadership's dissatisfaction with the policy of the Georgian authorities, which did not join the sanctions against Russia and adopted the “law on foreign agents” in 2024, and the freezing of the process of negotiations with Brussels by the Georgian leadership against this background.

Georgia's position towards Russia will continue to be determined by the unresolved Abkhazian and South Ossetian problems, from the point of view of official Tbilisi. Therefore, regardless of the political orientation of the ruling elite, Georgia will not establish a diplomatic dialog with Moscow and will not go for restoration of diplomatic relations. Georgia's participation in discussing the problems of South Caucasus on the 3 + 3 platform seems unlikely as well¹⁸³.

Abkhazia

In Abkhazia, the protest that began in November 2024 with demands to withdraw the controversial investment agreement with Russia and ended with the resignation of President Aslan Bzhania is unlikely to continue in 2025. Tensions in Abkhazian society can be defused by early presidential elections scheduled for February 2025. However, the problems related to land ownership rights, which are not resolved by the local authorities, will remain on the agenda, as will the internal struggle between different political groups within the Republic.

The internal perturbations in Abkhazia will be localized and limited mainly to the capital. In any development of events, the prospect of Abkhazia establishing relations with Georgia will be excluded from the agenda. Especially since official Tbilisi, regardless of the party affiliation of the circles in power, refuses to engage in any kind of dialog with Abkhazia. However, such a development is not excluded, in which a significant part of the Abkhazian political and economic elite will try to close the country for Russian business. In this case, the Russian leadership will have to solve a difficult dilemma: either to make concessions in order not to lose influence in this friendly country, which is economically dependent on Russia and has an important strategic importance for Moscow; or to refuse to sponsor the economy of this Black Sea republic with the risk of serious socio-political destabilization of the situation in Abkhazia and / or activation of other players there, primarily Turkey.

¹⁸² Why Georgia is in a Hurry to Elect a New President // RBC. 2024. 25.11. URL: <https://www.rbc.ru/politics/25/11/2024/67445af79a794759528afdda> (Accessed: 19/12/24).

¹⁸³ See about this: *A. A. Markarov, V. S. Davtyan.* «3+3» Cooperation Platform and Prospects for Unblocking Transport Communications in the South Caucasus // *Geoeconomics of Energetics.* 2024. No. 2 (26). P. 22–37.

CENTRAL ASIA

The Central Asian (CA) countries, faithful to a multi-vector foreign policy and foreign economic strategy, will continue to make efforts to diversify the trajectories of their foreign policy and foreign economic relations. At the same time, objective interests will determine the gravitation of the CA countries towards cooperation with **Russia** and **China** as the largest neighbors of the Central Asian countries that share long borders with them, as well as the powers that will continue to determine the basic directions of the Eurasian economy and politics. The geopolitical realities of Central Asia predetermine the importance of Eurasian integration (EAEU), the CIS, and China's Belt and Road Initiative, which will remain a priority for the region.

At the same time, the vulnerability of Central Asian countries to the negative consequences of the Ukrainian conflict, global economic and political instability, and sanctions restricting the export and transportation of goods will give additional impetus to the deepening of intraregional cooperation. Azerbaijan, which has oil and gas reserves and participates with the Central Asian countries in the Organization of Turkic States (OTS), will be attracted to this cooperation. Relations within the tandem of Kazakhstan and Uzbekistan, which approved a 10-year partnership program in 2024, will also be developed. These “region-forming” states, “around which a hypothetical regional integration could take real shape”¹⁸⁴, will emphasize trade, transportation, water and energy issues. Since the capacity of the countries of the region is limited, they will have to delegate the process of institutionalization of CA as an independent region to external forces¹⁸⁵, which will compete mainly for dominance over the energy sector of CA and control of transport flows.

Potential threats to CA security will come primarily from non-state actors – terrorist network organizations based, among others, in Afghanistan and the Middle East. Afghanistan's neighboring countries are expected to discuss measures to counter these threats at their annual meeting in the capital of Turkmenistan in January 2025. The problem of water scarcity in Central Asia poses serious security risks, rather than for 2025, but for the future. The hydropower initiatives of Tajikistan and Kyrgyzstan, as well as hydrotechnical projects of Afghanistan aimed at utilizing water resources to increase energy and food production in their countries and thus creating risks for the agricultural sector of Kazakhstan, Uzbekistan and Turkmenistan may become a certain challenge to regional cooperation and stability.

The interest of Central Asian countries in expanding cooperation with Russia will be conditioned by its role as an energy donor, an important trade partner and a state capable of ensuring security in the region. Central Asian countries and Russia will continue to coordinate their efforts in such associations as the EAEU, CSTO, CIS and SCO, as well as interaction at the UN and other international organizations and interstate structures. To ensure a friendly neighborhood in Central Asia – especially in the context of the unfolding confrontation with the West – Russia will need to reconsider its foreign economic and foreign policy priorities, taking into account the factors of a multipolar world formation and the growing importance of the Global South, of which post-Soviet Central Asia will be an important component.

¹⁸⁴ *Dina B. Malysheva*. Problems of Regionalization of Post-Soviet Central Asia // Outlines of Global Transformations: Politics, Economics, Law. 2020. Vol. 13. No. 3. P. 146.

¹⁸⁵ *Gusseinov E., Sultonazarov A.* The Future of Central Asian Integration in the Shadow of U.S.-China Confrontation // Central Asian Bureau for Analytical Reporting. 2024. 24.04. URL: <https://cabar.asia/en/the-future-of-central-asian-integration-in-the-shadow-of-u-s-china-confrontation> (Accessed: 19/12/24).

Turkey will occupy a prominent place in the external contacts of Central Asian countries. Its policy in the region, as well as its efforts to form a pan-Turkic integration association alternative to the CIS and EAEU through the mechanisms of the OTS, will become a serious challenge to Russia's strategic interests in Central Asia's "near abroad".

The 11th summit of the Organization of Turkic States held on November 6, 2024 in Bishkek on the theme "Strengthening the Turkic World: Economic Integration, Sustainable Development, Digital Future" will ensure Turkey's strengthening of its influence in Central Asia. And it will not only be strengthened in the sphere of language policy ("development of the Great Turkic Language Model of the OTS"¹⁸⁶), but also aimed at the integration of the economic and financial sectors of the participating countries in the future, activation of military-technical cooperation.

Turkey's proactive policy of seeking to integrate into common transportation and energy projects with Central Asia, aimed at bypassing Russia, will be combined with the desire of local elites and rulers of Central Asian countries to avoid – by expanding partnerships with Turkey – involvement in the tense relations between the West, Russia and China. Turkey itself, relying on the growing interest of the Turkic peoples of Central Asia in their cultural and historical past, is objectively becoming a factor in the displacement of the Russian language from the cultural space of the region.

One of the strategic tasks for Central Asian countries will be to involve **Afghanistan** in regional ties and support the process of statehood formation there. The stability of the Afghan situation will be inextricably linked to the security of the entire Central Asian region, and the ability of the Taliban, prohibited in the Russian Federation, to control jihadist groups and counter terrorist activities will directly affect the logistics, energy and transportation projects promoted by the CA countries through the territory of Afghanistan.

Cooperation with **Iran** will be viewed in Central Asia primarily through the prism of this Middle Eastern country's ability to provide the Central Asian republics with access to the World Ocean through new trade and logistics routes.

The increasing role of **India** in Central Asia, which will try to prevent the region from becoming a Chinese "fiefdom," is more likely than the strengthening of **Pakistan's** position. It is not excluded that competition between India and China will increase in Central Asia over time, as they will each seek to define the framework elements of the global infrastructure of Eurasia in their own way.

The role of **Saudi Arabia** and other Persian Gulf monarchies will become more significant in Central Asia, which will act in the region to counterbalance the cultural and economic influence of Turkey on the Turkic peoples of Central Asia, and of Iran on the Tajiks who are kin to it.

Japan's interest in Central Asia will be stimulated by: a) the pace of China's advancement into the region; b) the growing needs of Japan's energy sector, which may lead to increased cooperation with Kazakhstan and Uzbekistan in civilian nuclear development and uranium supplies to Japan. But, like the **Republic of Korea**, Japan will not go beyond point-to-point economic bilateral cooperation with Central Asian countries.

¹⁸⁶ As a Result of the 11th Summit of the Heads of State of the OTS, a Number of Decisions Adopted and Multilateral Documents Signed // Official website of the President of the Kyrgyz Republic. 2024. 06.11. URL: <https://president.kg/ru/news/21/26118> (Accessed: 19/12/24).

Central Asia will remain in the sphere of US international interests, assuming that the new US administration will continue to focus on increasing pressure on Russia, concentrating on Europe and the post-Soviet space. Another – and more likely – scenario envisages a shift of the gravity of US military and political pressure to the Asia-Pacific region and the Middle East, which may occur against the background of the emerging process of reorientation of the Global South to new centers of power. In this case, Central Asia will occupy a peripheral position in US priorities. Cooperation with Central Asia will be selective and will focus on countries (Kazakhstan in the first place) that have uranium and rare earth metals, as well as energy resources (oil, natural gas). In any scenario, the US will be focused on the task of reducing China's economic influence and including the CA region in alternative to Chinese and Russian economic and political projects.

The UK and EU strategies will continue to focus on gaining access to Central Asian natural resources. The EU will try to offer CA countries attractive alternatives that can, on the one hand, reduce CA dependence on Russia and China and, on the other hand, meet the strategic interests of the Central Asian republics and their changing priorities and aspirations.

The resolution adopted by the European Parliament on January 17, 2024, on the EU's strategy for the Central Asian states¹⁸⁷, which requires them, among other things, to comply with international human rights obligations, will serve as a basis for the EU to monitor the compliance of the Central Asian states with the sanctions regime against Russia and Belarus. According to the European Parliament, the “isolation of Russia caused by the war with Ukraine,” the projection of new trade routes through Central Asia bypassing Russia, the EU's planned eastward enlargement and China's growing influence in the region will require a “complete rethinking” of the EU's Central Asia strategy and a more active involvement of “a democratic EU in the region as an alternative to the established autocratic players”¹⁸⁸. On this basis, the EU, within the framework of its Global Gateway Initiative, for which more than €300 billion has been allocated, intends to implement infrastructure projects in Kazakhstan and other CA countries, in particular for the development of the Trans-Caspian International Transport Route (TITR). The EU's attention will traditionally be drawn to the issues related to green transition and preservation of water resources in Central Asia.

Situation in individual CA countries

Kazakhstan

In Kazakhstan, elections of heads of local executive bodies (akims) scheduled for 2025 will be held in accordance with democratization of the system of state administration initiated by President Kassym-Jomart Tokayev. Direct elections of akims in cities and districts of regional significance are seen as “an important step towards increasing political participation of citizens, improving the transparency of government and increasing the accountability of local leaders to the population”¹⁸⁹.

¹⁸⁷ Report on the EU Strategy on Central Asia. The European Parliament // Committee on Foreign Affairs. 2023. 06.12. URL: https://www.europarl.europa.eu/doceo/document/A-9-2023-0407_EN.html (Accessed: 19/12/24).

¹⁸⁸ “Strategically Important Region”. European Parliament Offers Central Asian Countries Rapprochement // Azattyq Radio. 2024. 18.01. URL: <https://rus.azattyq.org/a/central-asia-novaya-rezolyutsiya-sotrudnichestvo-evrosoyuza/32780131.html> (Accessed: 19/12/24).

¹⁸⁹ Askar Hakimov. Elections-2025 in Kazakhstan: Challenges and Risks // Central Asia Cronos. 2024. 17.09. URL: <https://cronos.asia/news/vybory-2025-v-kazahstane-vyzovy-i-riski> (Accessed: 19/12/24).

Kazakhstan will lead Central Asia in the race for regional leadership, aggravated by competition for control over international freight transportation. Within the framework of TITR, Kazakhstan will continue to develop infrastructure projects in the expectation that this will allow it to diversify its export routes for oil and other goods. In the context of increased international attention to this Central Asian Republic, it will try to take into account the interests of its key partners – Russia, China, Turkey and Western countries – while staying within the framework of its specific multi-vector policy.

Russia's cooperation with Kazakhstan will not undergo major changes. The expansion of the network of branches of Russian universities, the establishment of a Russian consulate in Aktau, and the signing of the Plan of Consultation and Cooperation for 2025-2026 on November 7, 2024, will presumably make Russia's participation in cultural and educational processes in Kazakhstan more effective. There are also indications that the changing international context and the challenging dynamics of the political process in Kazakhstan will favor a scenario in which the interdependence of Russia and Kazakhstan as its key partner in Central Asia will increase.

China's position will be strengthened by expanding trade and economic cooperation with Kazakhstan. The EU will retain consistently strong positions in Kazakhstan, which will be largely due to the nature of their relations, tied to the export of energy resources to Europe. Kazakhstan, which is one of the world leaders in natural uranium production, expects to become the main supplier of this important strategic raw material for the French nuclear industry, which has lost 40% of the uranium needed for its nuclear power industry with the loss of its influence in Niger. Active development of rare-earth metal deposits with the participation of Western European and American capital will begin in the Republic. This will allow the West to strengthen its competitive capabilities and, at the same time, challenge the military-technical potential of China, which used to produce 70% of rare earth metals but stopped their export in the interests of its own aerospace industry and military-industrial complex.

The US will focus its interest in Central Asia mainly on Kazakhstan as it continues its search for ways to diversify its raw materials supplies bypassing Russia. The US will develop cooperation with Kazakhstan within the framework of the United States-Kazakhstan Enhanced Strategic Partnership Dialogue (ESPD), the next meeting of which is scheduled to be held in Astana in 2025. The US and Kazakhstan plan to build infrastructure for TITR and other trade routes bypassing Russia as part of The Partnership for Global Infrastructure and Investment (PGII)¹⁹⁰.

Kyrgyzstan

The focus of attention of the Kyrgyz leadership will remain on maintaining internal political stability in the country. This circumstance will not be an obstacle for proactive behavior of the Republic in the international arena. Traditionally, the political leadership of the republic will focus on water and energy problems, which official Bishkek plans to solve by involving Uzbekistan and Kazakhstan in a large-scale project – the construction of Kambarata HPP-1. In addition, the Republic expects to play a more prominent transit role in the region and for this purpose will make

¹⁹⁰ Joint Statement on the United States-Kazakhstan Enhanced Strategic Partnership Dialogue // U.S. Embassy & Consulate in Kazakhstan. 2024. 05.06. URL: <https://kz.usembassy.gov/joint-statement-on-the-united-states-kazakhstan-enhanced-strategic-partnership-dialogue-2> (Accessed: 19/12/24).

efforts to join, on its own terms, the construction of the China-Kyrgyzstan-Uzbekistan railway line. For obvious reasons, Kyrgyzstan will continue to pay serious attention to delimitation and demarcation of the border with Tajikistan and final de-escalation and stabilization of the situation in the south of the country.

At the UN, Kyrgyzstan will seek to nominate its candidacy for a non-permanent member of the UN Security Council for 2027-2028. The Republic will also promote projects related to mountain regions, taking into account the UN General Assembly resolution on Sustainable Mountain Development, adopted at the initiative of Kyrgyzstan, according to which 2023-2027 is declared the five-year action plan for the development of mountain regions. In addition, Bishkek's role in the Organization of Turkic States will be active, as Kyrgyzstan took over the chairmanship of the OTS from Kazakhstan in 2025.

Tajikistan

For Tajikistan, one of the key problems will remain the formation of a political *modus operandi* in relations with Kabul and the maintenance of stability on the border with Afghanistan. Priority attention to Afghanistan is conditioned by a number of factors: the length of the Tajik-Afghan border, which in addition runs along a complex mountainous terrain; the involvement of ethnic Tajiks in extremist organizations based in Afghanistan and hostile to Dushanbe, which has repeatedly led to the use of Tajik citizens in terrorist attacks in Afghanistan, Iran, Turkey and Russia; and the continuing political contradictions with the Afghan authorities.

The Tajik authorities will have to pay serious attention to the situation in the Gorno-Badakhshan Autonomous Oblast (GBAO) and concentrate on finding an acceptable formula for solving the problems of the region, which would ensure manageability and control over it on the part of official Dushanbe. Given the multi-vector foreign policy of Tajikistan's authorities, Dushanbe will face the difficult task of shaping a political course that would not only prevent the growth of discontent among the population in GBAO, but would also take into account Western concerns about the rights of the Pamiris.

Other priorities of the state policy of Tajikistan will include issues related to water resources, their rational and efficient use. On Tajikistan's initiative, the UN General Assembly adopted a resolution to declare 2025 the International Year of Glacier Preservation. It is planned to hold the first International Conference on Glacier Protection in Dushanbe in May 2025.

Cooperation between Tajikistan and Russia will be developed mainly in 3 areas. Cooperation in the cultural and educational sphere, where, in particular, within the framework of the program "Russian Teacher Abroad" it is planned to increase the teaching of subjects in Russian. The Tajik authorities will continue to pay serious attention to the status of Tajiks – labor migrants in Russia. However, security cooperation within the CSTO and on a bilateral basis, related to the modernization of the country's armed forces and the strengthening of the Tajik-Afghan border, will undoubtedly serve to cement relations between the two countries.

Tajikistan's cooperation with China will be based on the results of the talks between Xi Jinping and Emomali Rakhmon on July 5, 2024. In addition to such areas as economy, trade, investment,

humanitarian sphere, attention will be paid to combating the “3 evils” (terrorism, extremism, separatism), cross-border organized crime, including drug trafficking, and cybercrime¹⁹¹.

The visit of President Rahmon to Tehran on July 30, 2024 to participate in the swearing-in ceremony of the newly elected President of the Islamic Republic of Iran, the decision of Tajikistan and Iran to abolish visas for holders of general civil foreign passports¹⁹² from August 10, 2024, the sustainable development of Tajik-Iranian political, economic, trade and scientific-cultural ties speak in favor of continued cooperation between the two countries. Tajikistan will also focus in its foreign policy on the Arabian monarchies of the Persian Gulf, as evidenced by the visit of the President of Tajikistan in November 2024 to Riyadh to participate in the Joint Arab-Islamic Extraordinary Summit, which discussed issues of international policy and cooperation in the region.

Turkmenistan

The political system of Turkmenistan within the framework of the multi-vector and neutrality strategies will remain generally closed to external influence. At the same time, the significantly increased international political activity of Turkmenistan over the period 2022-2024 indicates that it is becoming increasingly difficult to follow the tactics of foreign policy equidistance in the context of growing domestic socio-economic challenges and risks. It cannot be ruled out that Turkmenistan will succumb to the persuasions of Turkey and Western countries not only to expand trade and economic contacts, but also to join the mechanisms of military-political interaction.

Russia plans to develop bilateral cooperation with Turkmenistan in the fields of energy, transportation, health care, education, and engineering geology. Against the background of high growth rates of mutual trade, Russia will try to involve Turkmenistan in projects to develop logistics infrastructure on the Caspian Sea, within the framework of the North-South ITC routes. Russia will also try to intensify cooperation in the educational and cultural-humanitarian spheres, including on the platform of the International Forum Interconnection of Times and Civilizations – the Basis for Peace and Development, Turkmenistan's own dialogue platform at the top officials' level, launched by Turkmenistan.

The UN vector will remain unchanged in Turkmenistan's foreign policy, where celebrations and events are planned for 2025 in honor of the International Year of Peace and Trust, which was proclaimed on the basis of the UN General Assembly Resolution initiated by Turkmenistan.

Uzbekistan

A significant event capable of influencing political development of Uzbekistan is the elections to the Legislative Chamber of the Oliy Majlis (Parliament) and the Kengashes (local representative bodies) of people's deputies, held on 27 October 2024. It opened up new opportunities for modernizing the country, building a democratic state based on the principles of market economy,

¹⁹¹ Xi Jinping Holds Talks with President of Tajikistan Emomali Rakhmon // Ministry of Foreign Affairs, The People's Republic of China. 2024. 06.07. URL: https://www.fmprc.gov.cn/rus/zxxx/202407/t20240708_11450004.html (Accessed: 20/12/24).

¹⁹² Visa-Free Regime Comes into Force between Tajikistan and Iran // The National Information Agency of Tajikistan (NIAT) Khovar. 2024. 06.08. URL: <https://khovar.tj/rus/2024/08/mezhdu-tadzhikistanom-i-iranom-vstupayet-v-silu-bezvizovyj-rezhim/> (Accessed: 20/12/24).

creating opportunities for the broad involvement of entrepreneurs and business people in the economy and politics, and developing civil society.

The priority of Uzbekistan's foreign policy will remain the neighboring countries, cooperation with which will be built on the basis of the Uzbekistan-2030 strategy, which provides for the consistent continuation of a policy based on the principle of "Safe and Peaceful State"¹⁹³. Claiming to be a bridge between Afghanistan and Central Asian countries, Uzbekistan intends, in particular, to pursue a pragmatic policy towards Afghanistan, advocating a dialog with Kabul on border security, water management and trade development issues.

In relations with Russia, Uzbekistan will remain committed to strengthening relations based on the principles of the Declaration on Comprehensive Strategic Partnership adopted in 2022. It is planned to build up bilateral relations on the basis of agreements reached during the state visit to Tashkent on May 26-27, 2024 by Russian President Vladimir Putin and the working visit in early May 2024 of President Shavkat Mirziyoyev to Russia, where the leader of Uzbekistan participated in the jubilee meeting of the Supreme Eurasian Economic Council as the head of the observer state of the organization. The Program of Cooperation between the Ministries of Foreign Affairs for 2024-2025 is designed to facilitate the realization of the accumulated potential of interaction between Uzbekistan and Russia on the foreign policy track.

Uzbekistan plans to expand its ties not only in such traditional areas as Central Asia, CIS and Russia. More active in 2025 will be the interaction and development of mutually beneficial cooperation with the countries of the Middle East, Persian Gulf, Europe, as well as the states of South and Southeast Asia. China will play a special role in Uzbekistan's foreign policy and foreign economic ties. With China, Uzbekistan intends to develop new infrastructure projects within the framework of the Belt and Road Initiative, including the realization of the China-Kyrgyzstan-Uzbekistan railway route.

¹⁹³ *Mirzayev Gulom*. How the Phrase «Spirit of Central Asia» Appeared in World Political Science // Tolo News. 2024. 02.07. URL: <https://tolonews.com/index.php/opinion-189541> (Accessed: 20/12/24).

INDO-PACIFIC ASIA

The geographic region, which includes the eastern, southeastern and southern parts of Asia, has over the past decades become a strategically important political and economic space for the unfolding global processes. Reflecting the general direction and nature of these processes, the development of the situation in the basin of 2 oceans has its own specificity and, in some cases, its own logic. The growing share of the region's countries in the global economy and international trade is associated with the increased dynamism of its key components and their claims to improve their position in the global hierarchy of wealth and power. The increased ambitions of regional powers are accompanied by the desire of weaker players to play on the contradictions between the former and create favorable conditions for their economic development. At the same time, this forces the countries of the region to look for opportunities to increase their significance as international political actors and subjects of the world order.

International relations in this space reflect global geopolitical rifts, which partially explain the moments of confrontation and the formation of regional military-political alliances. At the same time, it has its own sources of tension and contradictions that influence the foreign policy of its constituent countries. The specifics of the domestic political situation in individual states and differences in the proclaimed and real goals are also important. At the same time, their geographical proximity forces them to seek ways of mutual accommodation and building various forms of bilateral and multilateral dialogue and interaction.

The region has a large number of multilateral platforms and institutions for coordination and co-development with varying degrees of capacity and influence. The possible role for each of them is limited by the general trends of international relations in the region and the ability to mobilize the necessary financial and political resources. With the general increase in tensions, the role of broad multilateral structures is generally diminishing, giving way to narrower formats of interaction and political coordination, such as the Quad and AUKUS. This is leading to increased “bloc” thinking, locking relations into security issues and diluting the content of multiparty projects. Missed opportunities for conflict mitigation and effective cooperation are growing, including through the relatively new regional structures of the Regional Comprehensive Economic Partnership (RCEP) and the Indo-Pacific Economic Framework (IPEF).

At the same time, the characteristic feature of international relations in the region is still a high probability of realization of various scenarios of their further evolution both in the short and long term.

China

The main task of China's leadership in 2025 will be to maintain internal stability in order to ensure favorable conditions for economic development against the backdrop of increasing external pressure. After winning the presidential election, Donald Trump formed his team of anti-China “hawks” at the end of 2024, which was an unambiguous indication of the forthcoming toughening of the course to contain the People's Republic of China. In addition to causing direct damage to the Chinese economy, the policy of the US administration can have an unfavorable indirect impact on the domestic consumer market, sowing panic and uncertainty in the future.

In the second half of 2024, the Chinese authorities adopted a set of measures to stimulate the economy, including support for the consumer and stock markets and the real estate market. These steps have generated positive economic expectations and increased consumers' willingness to spend money. Revitalizing domestic demand will help Chinese enterprises overcome difficulties in selling their products, improve their performance, expand hiring, and thereby alleviate the problem of youth employment. However, economic stimulus measures will only have a tangible impact starting in the second half of 2025.

China has the potential for economic growth of 5% in 2025. To achieve this goal, the Chinese leadership needs to implement a coordinated strategy of transformation in a stable environment. Strategic decisions on socio-economic development were already adopted in 2024 at the 3rd plenary session of the 20th CPC Central Committee. The main task of 2025 will be to put them into practice. The 4th plenary session of the 20th CPC Central Committee is to be held in 2025, and its topics may include issues of governance and the legal system.

External shocks are becoming the main threat to the fulfillment of Beijing's economic plans. The substantial increase in duties on all goods imported to the US from China, promised by Donald Trump, is capable of hitting Chinese manufacturers sensitively. The implementation of this threat will reduce China's export revenues, slow down GDP growth, and create additional difficulties in securing employment.

We should also expect the US and its allies to tighten their policy of isolating China in the field of advanced technologies. In 2025, the results of the “Made in China 2025” program will be summarized. It was developed in 2015, when Beijing hoped to promote modern products to foreign markets under favorable conditions of globalization. The subsequent experience of trade wars and Western technological restrictions confirmed the correctness of the plan to develop China's own microchip production capacity. Great success has been achieved in the production and export of electric vehicles. China will pursue the path of import substitution of key technologies and expand the production of high-tech products.

If Donald Trump fulfills his threat to raise tariff barriers on Chinese exports to the US, the positive domestic effect of the economic stimulus policy could be largely weakened and even lost. The Chinese authorities will make every effort to prevent this from happening. Beijing's most likely response to the US administration's actions will be a new economic stimulus package. Its side effects may be excessive easing of monetary policy, creation of preconditions for inflation growth and increase in domestic debt.

A slowing economy will not make China more flexible or force it to make significant concessions to the US. Trump does not need superficial symbolic gestures from the Chinese side. But neither will Beijing give in to calls to dismantle the state model of economic management in exchange for the refusal of the US to further worsen the terms of trade and economic cooperation. Agreeing to such a swap would hit the foundations of China's political system with a crushing blow and would prevent it from implementing its long-term development goals.

In 2025, tensions will grow in US-China relations, which will have a negative impact on the military and political situation in the Asia-Pacific region and on the development of the global economy. If by the end of the year Donald Trump is convinced of the futility of economic pressure

on China, he may try to raise the stakes by exploiting the Taiwan issue. In this case, the PRC and the US will face a full-scale crisis in bilateral relations and a threat of a military conflict.

China will continue its policy of reducing its dependence on exports to Western countries, compensating for lost income by expanding its domestic production and consumption cycle. The search for new markets is facilitated by China's expanding economic cooperation with the Global South. On the international stage, China will increasingly advocate multipolarity and a new fair model of globalization, rejecting US hegemony in world affairs.

The implementation of China's priorities for cooperation in Eurasia in 2025 is facilitated by China's chairmanship of the SCO. Beijing has proclaimed sustainable development as its key theme, including poverty reduction, food security and healthcare development; financing for development; combating climate change; and promoting new industries and the digital economy. China has declared its desire to make its chairmanship of the SCO active and vibrant: over a hundred events are planned aimed at deepening practical cooperation.

Kazakhstan is expected to host the second China-Central Asia Summit in 2025. The secretariat of this cooperation mechanism was established in 2024 in the Chinese city of Xi'an. In order to demonstrate the effectiveness of the new structure, the Chinese side will pay considerable attention to the summit. All this will allow China to create an atmosphere of cooperation with countries located in close proximity to the Northwest of China, which will be favorable for its national development.

In 2025, China will pay special attention to two anniversaries – the 80th anniversary of the victory in the War of Resistance against Japan and the 80th anniversary of the founding of the United Nations. The Chinese side is going to propose relevant declarations to the SCO countries. The topics of China's contribution to the victorious conclusion of the war against fascism and the establishment of the United Nations, with an emphasis on the current importance of this organization, will occupy a significant place in Beijing's international contacts.

Japan

In Japan, the September 2024 change of the chairman of the Liberal Democratic Party, the main party of the Japanese establishment, did not affect the basic tenets of its domestic and foreign policy, which are determined mainly by the collective consciousness of the conservative part of the country's political class. They still consist in maintaining socio-political stability with the neutralization of non-systemic forces and ideologies; using and cautiously encouraging the growth of national consciousness as a stabilizing, unifying and motivating force; actively using distributive mechanisms to support the economic situation and adjust destabilizing imbalances; increasing the economic activity of the able-bodied part of the population and its market value as a resource. Hence the dominance in the policy agenda of measures to support the low-income groups of the population while stimulating their activity in the labor market; to increase the professional and geographical mobility of the workforce; to take measures to digitalize management, education and public services; to promote Japanese leadership in the implementation of the green agenda and the concept of integrated security.

In foreign policy, this implies strengthening Japan's international profile, emphasizing its role as an Asian outpost of the Collective West, more active military buildup and its projection on security policy in the region. The ideological basis of foreign policy remains the concept of returning Japan to the ranks of major players in the international arena by using its economic, technological, and military potential. The unusual situation resulting from the extraordinary elections to the lower house of parliament, where the government formed by the LDP and its coalition partner is not based on a parliamentary majority, does not change the main priorities of the official political agenda. However, it will force the ruling cabinet to seek the understanding of part of the opposition to secure support for certain specific bills.

In 2025, the Japanese government's foreign policy bloc will face a number of new challenges. The main one is the change of the presidential administration in Washington. The previous administration objectively created relatively comfortable conditions for the implementation of Japan's foreign policy strategy, focusing on the verbal promotion of the American “policy of alliances and partnerships” in the region and avoiding explicit criticism and pressure on Japan as its main Far Eastern military and political ally. With the arrival of Donald Trump, this pressure is likely to intensify and will affect both trade and military issues. In addition to the inevitable new difficult negotiations on tariff and non-tariff regulation of mutual trade, Japan will have to face the requirement to increase spending on military partnership and on building up its own military capabilities. The Japanese government is prepared to increase spending for these purposes, but at its own pace, taking into account the existing financial and political constraints. At the same time, the factor of Donald Trump's personality makes traditional methods of “explaining” Japan's position ineffective; the partners' dissatisfaction with each other will increase significantly. The same factor will strengthen the US desire to resolve all acute issues at the bilateral level, as opposed to Japan's preferred attitude to multilateral formats, where bureaucratic regulations objectively reduce the opportunities for the dictate of the stronger participant.

The expected escalation of US-China tensions will also present new challenges. Despite the fact that anti-China rhetoric unites Japan with the US, this escalation will hinder Japanese diplomacy's attempts to maintain channels for high-level dialog with China, which is necessary to prevent incidents at the points of contact between the two countries' interests. Confrontation along geopolitical fault lines also increases the risk of armed conflict with North Korea, which is undesirable for Japan in its current circumstances. The rising risks, however, do not prevent the toughening of rhetoric and the growing emphasis on “containment” of opponents through new military buildup.

Japan has expressed its willingness to increase its political and military-strategic engagement with the Republic of Korea, despite differences in assessments of the common past and the current irritants arising from them. This willingness is generally echoed by the current presidential administration in Seoul and is likely to result in more extensive exchange of sensitive information and the establishment of new organizational structures on a bilateral or trilateral (with US participation) basis.

Japan's plans to raise its international profile by developing ties with Southeast Asia will conflict with its demonstration of inclusion in the military and political agenda of the West. This will be especially noticeable against the backdrop of the increased desire of Southeast Asian states to

remain aloof from the West's conflicting relations with Russia and Iran and from European issues in general. Japan's attempts to bring a pan-Western agenda to relations in the region will be met with resistance from the SEA states.

The same factor – the desire to look like a Western outpost in the Pacific – will hinder the resumption of Tokyo's diplomatic dialog with Moscow, which has faded with the escalation of the Ukrainian crisis. Much, however, will depend on how far Japan's economic security concerns will be allowed to break away from bloc discipline within the system of US-centric international alliances.

Republic of Korea (ROK)

The acute crisis of late 2024 that literally shook the Republic of Korea was mainly due to domestic political and socio-economic reasons. Its resolution will take some time. However, there is no reason to expect major changes in the foreign policy initiated in 2022 by the Yoon Suk Yeol administration, in line with the strategy of making the country the world's tenth largest economy and a “global pivotal state”. Within the framework of the declared course on innovative development and digitalization, in 2025, the ROK will continue to seek coordination of science and technology policy and strengthen cooperation with the US and Japan in both the economy and defense, which the Democratic Party in opposition to the current South Korean leadership critically assesses as a possible “de facto military alliance with Japan”. Further involvement of the ROK in multilateral structures with US participation is to be expected, but the scale and quality of practical US-South Korean interaction will largely depend on the degree of mutual trust between the leadership of the two countries. As is known, the first presidency of Donald Trump was marked by difficulties in reaching an understanding, particularly with regard to increasing Seoul's contribution to the financing of US military bases deployed in the country. That is why in October 2024, the current leadership of the ROK hurried to conclude an agreement with the administration of Joe Biden on favorable terms to increase in 2026-2030 the South Korean annual expenditures for the maintenance of US troops on the Korean peninsula. In 2026, this spending will increase by 8%, to \$1.1 billion, while in 2017-2021, Trump as US President insisted on increasing the expenditures of the ROK up to \$5 billion. It cannot be ruled out that the nature of the agreement reached and the haste in adopting it a month before the US presidential election may be negatively perceived by the new US administration.

Another serious problem in the ROK's bilateral relations with the US is likely to be the issue of ROK-China relations. Faced with Beijing's negative reaction to the pro-US bias of South Korea's foreign policy and Japan-South Korea rapprochement, Seoul is seeking to explain its actions to China, noting that it has “common interests with China”. It is likely that in 2025 Seoul will face serious pressure from the Trump administration if Washington pursues a course of intensified containment of China.

In these circumstances, Seoul's actions are likely to be of a measured nature, reflecting the ROK's desire to solve a difficult diplomatic task: to prevent any significant aggravation of relations with China, while not giving the US any reason to doubt its loyalty to the bilateral military-political alliance.

In line with the New Southern Plus Policy, Seoul will continue to develop multifaceted ties with ASEAN countries in the forecast period, especially in the economic sphere, under the five-year cooperation plan for 2021-2025, complemented by regional security dialogues. In 2025, Seoul is likely to take new initiatives to strengthen ties with ASEAN countries in safe navigation and cyber security, as well as in the humanitarian sphere. Preferential engagement on all these issues with Vietnam, Indonesia, and Singapore will be maintained.

Democratic People's Republic of Korea (DPRK)

There are no objective preconditions for significant changes in the DPRK in 2025 in terms of domestic economic and domestic politics. At the same time, North Korean diplomacy is likely to become more active. It is in Pyongyang's interests to consolidate partnership relations with Russia, including with the expectation of inducing China to intensify ties with the DPRK. Finally, North Korean diplomacy will be aimed at ensuring positive developments in North Korea-US relations in the hope that the North Korean leader will resume direct contacts with Donald Trump.

Tensions will remain on the Korean Peninsula and in inter-Korean relations during the forecast period. At the same time, the situation around the Korean Peninsula will be under control against the backdrop of a likely increase in diplomatic activity.

ASEAN

The internal political development of the ASEAN member countries will proceed without deep shocks. It is unlikely that the upcoming elections in the Philippines and Singapore will lead to an escalation of social instability. As before, the main priority of domestic policy and economy of SEA states will remain the development of high-tech sectors and institutions of interaction between government and business, as well as the adaptation of national instruments of cooperation to the implementation of multilateral projects within the framework of this organization.

The cooperation of ASEAN countries both with each other and with dialog partners will be built around the assessment of the degree of implementation of the official goals of the ASEAN Community until 2025 as well as around the development of strategic plans for the ASEAN Community Vision 2045. It is likely that partial fulfillment of the goals will be announced in 2025, as it was already done 10 years ago for a similar document, and unfulfilled tasks will be transferred to the strategic plans for the ASEAN Community Vision 2045. ASEAN multilateral projects will continue to be implemented, including with dialogue partners, in areas such as energy, transport and logistics.

Digital support for multilateral initiatives will become an important area of dialog among Southeast Asian countries. Its institutional structure will be the Framework Agreement on the Development of the Digital Economy, the terms of which will be negotiated under time pressure. Realizing that the provisions of this agreement are far from the realities of Southeast Asia, ASEAN will seek opportunities to unify the approaches of its member states to various areas of digital cooperation, up to the point of raising the issue of developing a common technology policy.

ASEAN can be expected to attempt to coordinate its policies with the development of multilateral economic formats involving extra-regional players, in particular Indo-Pacific Economic Framework Agreement. However, ASEAN will focus on the RCEP platform, coordinating it with other formats

and initiatives, primarily China's Belt and Road mega-strategy. In the political and security sphere, ASEAN will continue to adapt its Asia-Pacific security framework, represented by the ASEAN Regional Security Forum (ARF), the ASEAN Defense Ministers' Meeting (ADMM+), and the East Asia Summit, to those areas that are being developed by its extra-regional partners, especially the Quadrilateral Security Dialogue (QUAD).

The South China Sea issue will remain the main threat to SEA security. The likelihood of signing the Code of Conduct for the Parties in the South China Sea is unlikely. Contradictions between China and the Indochinese states over the development of the Mekong River resources may escalate.

The explosive potential for contradictions related to the digital sphere will grow. It will be a consequence of tensions in China-US relations: ASEAN and its member countries are caught between the Chinese and American digital ecosystems (5G Internet, digital platforms, central bank digital currencies, etc.).

In relations with dialog partners, emphasis will be placed on initiatives aimed at enhancing the competitiveness of ASEAN in general and its members in particular, as well as asserting its role as an influential global player. ASEAN's interest in the expanded BRICS grouping, as well as in building ties with the SCO, EAEU and other Eurasian formats, can be expected to grow. ASEAN will continue to engage with China to link its multilateral projects with the Belt and Road Initiative. In the dialogue with the Russian Federation the goals of cooperation will be updated after the completion of the Comprehensive Action Plan for the ASEAN-Russia Strategic Partnership 2021-2025.

India

After the relatively successful performance of the ruling National Democratic Alliance in the national elections (293 seats instead of the planned 400, which nevertheless allowed the center-right to remain in power), the Bharatiya Janata Party worked on its mistakes. The following elections in key states such as Haryana and Maharashtra showed that the party responded successfully to popular discontent with its policies. Measures included rotating staff in regional offices, implementing popular pro-poor measures and utilizing all the grassroots propaganda mechanisms at its disposal. The result was not universally successful: in Jharkhand, the BJP failed to reverse the negative trend among the tribes and was defeated, losing to a local party allied to the Indian National Congress.

Local elections are due in 2025 in Delhi (February), where the opposition Aam Aadmi Party currently rules, and in Bihar, where the BJP is in power (October-November). Opposition sentiment is traditionally strong in Delhi, and the BJP's defeat there will not be perceived as a serious blow to its reputation; if it wins, the right-wing party will sharply improve its political position. At the same time, the election results in Bihar, one of the poorest and most populous states in the Hindi language belt, will test the success of the BJP's agrarian policy, and a defeat will be a serious blow to it.

India's foreign policy in 2025 will not change significantly: it will continue to be based on the concepts of strategic autonomy and multi-alignment. The key objective will be to strengthen

economic and political relations with the countries of the Indian Ocean sub-region, including security relations. The main obstacle, as before, will be the lack of resources at India's disposal, which does not allow Delhi to act as a full-fledged competitor to Beijing by offering similar in scale financial assistance programs. This forces India, first, to focus on cooperation with external players (the US, Japan, France, Germany, Australia and others), and second, to compensate for the lack of financial resources with non-economic assets.

The tasks determining India's foreign policy will remain the search for economic partners that will allow the Narendra Modi government to realize its ambitious goals of reformatting the country's economy and creating new production chains, which will allow India to take new positions in the global labor distribution system and become the world's third economy in terms of GDP (nominal), as well as ensuring the security of the borders of its sphere of influence. This implies increasing Indian foreign policy and foreign economic activity in the regions of South and Southeast Asia, the Middle East, and the Indian Ocean region.

The main intrigue remains the further development of relations with China. During the last 5 years, their dynamics were determined by the outcome of the clash in the Galwan River Valley in June 2020, which resulted in the deaths of more than 20 Indian and Chinese servicemen. The incident disrupted the warming process in India-China relations that began with Narendra Modi's visit to Wuhan in 2018. The agreement reached on the margins of the BRICS summit in Kazan showed that this incident is largely over and the main question now is whether the Indian leadership will dare to take new steps toward China or prefer not to risk good relations with Western countries.

In 2024, India has demonstrated its interest in ending the conflict in Ukraine as soon as possible; this is primarily due to the general problems in the global economy that resulted from the Ukrainian crisis and negatively affect the implementation of India's foreign economic and foreign policy strategies. In 2025, these attempts will obviously continue, and if successful, Modi will use them to strengthen his domestic political image.

At the moment, Sri Lanka and the Maldives remain potentially the most problematic areas for India.

Sri Lanka

In Sri Lanka, the results of the presidential election brought to power the leftist candidate Anura Kumara Dissanayake, whom a number of Indian politicians and experts tend to consider as a pro-Chinese candidate because of his Marxist sympathies and the past ties of some of the forces supporting him with China. India was betting on the victory of another candidate, Sajith Premadasa. However, Dissanayake has already stated that he intends to take India's interests into account, actively attract foreign investment in green energy and generally focus on interaction with Lankan businessmen living abroad. However, it is clear that despite the Indophile rhetoric, Dissanayake will have to develop ties with China as the only country capable of fully sponsoring development projects in Sri Lanka.

Maldives

In the Maldives, President Mohamed Muizzou, who came to power on anti-India rhetoric among other things and was initially seen as a pro-China candidate, has reversed course dramatically in recent months. He paid a five-day visit to India, met with Prime Minister Narendra Modi and

concluded a series of agreements, including the construction of a commercial port on the artificial island of Thilafushi near Male; India's financial support for the Maldives; and the launch of India's RuPay payment system in the Maldives. In 2025, Modi is scheduled to pay a state visit to the Maldives, which is expected to give the two countries an additional incentive to cooperate. However, the Maldives is subject to the same set of constraints and incentives as Sri Lanka: any Maldivian government would be forced to develop ties with China, which would make Indian politicians nervous.

The region's traditional security challenges related to Indo-Pakistani and Indo-Chinese confrontation are less dynamic. Indo-Pakistani relations remain virtually frozen after the decision by Indian elites to deprive the former state of Jammu and Kashmir of its autonomous status in August 2019, which conditioned Islamabad's uncompromising stance toward New Delhi.

At the same time, there is nothing to indicate either a possible escalation of the conflict or a restart of the negotiation process. It seems that even a sharp aggravation of the situation or, on the contrary, a warming of relations will not affect the general nature of relations between New Delhi and Islamabad in any way.

Pakistan

The main domestic political issue in Pakistan in 2025 will be the confrontation between the government, led by Prime Minister Shehbaz Sharif of the Nawaz Sharif's new Pakistan Muslim League party (PML-N), and the opposition, represented by supporters of the Movement for Justice party, whose leader, former Pakistani Prime Minister Imran Khan, is in prison. The February 2024 general parliamentary elections showed that Imran Khan enjoys broad support among the population, with his supporters winning more seats than any other political force¹⁹⁴. However, the government was formed by leaders of the PML-N, the Pakistan People's Party (PPP) and other systemic parties loyal to the Pakistani generals.

Pakistan's civil-military leadership will continue to use a wide range of repressive measures against the opposition in response to its moves to escalate the conflict. Despite this, in 2025 we should expect to see continued opposition actions (marches on Islamabad demanding the release of Imran Khan), demands for the resignation of the government and a reduction in the political role of the generals. And the outcome of the confrontation will depend not on the level of popular support for one of the political forces (in this aspect, the opposition seems to be ahead), but on the satisfaction of the military elites with the current state of affairs, i.e. the results of Shehbaz Sharif's government. However, even in case of major failures of the current cabinet, the probability of Imran Khan's return to the prime minister's chair in 2025 remains extremely low, as this requires restoring working relations with the generals.

The domestic political situation in Pakistan will focus on attempts to stabilize the macroeconomic situation against the backdrop of an ongoing violent struggle between the government, supported by military elites, and the opposition led by Imran Khan, as well as counterterrorism activities against Islamists in Khyber Pakhtunkhwa province and separatists in Balochistan province. Pakistan's overall foreign policy imperatives will not change: Pakistan's military and political leadership will

¹⁹⁴ Election 2024 // The Dawn URL: <https://www.dawn.com/elections-2024/> (Accessed: 27/12/24).

seek to maintain a strategic partnership with China, the US, and the Gulf states, as well as to offset security threats from India and Afghanistan.

Terrorist activity in Khyber Pakhtunkhwa and Balochistan will remain the most acute challenge for Pakistan's elites. To counter these threats, the multifaceted counterterrorism campaign called Azm-e-Istehkam (Determination for Stability), launched in June 2024, will continue into 2025. Pakistan's military command stresses that the campaign is not just another counterterrorism operation, but is a comprehensive program aimed at a long-term solution to the problem of terrorism¹⁹⁵. It can be assumed that the generals will try to abandon intensive combat operations, which were accompanied by civilian casualties, in favor of point operations with less collateral damage.

In 2025, we should expect further development of ties between Moscow and Islamabad. This is indicated by the intensification of Russian-Pakistani contacts observed in 2024: visits of the Chairman of the Federation Council and Deputy Prime Minister to Pakistan, the resumption of annual bilateral counterterrorism drills Friendship of the special operations forces of the Armed Forces of the Russian Federation and Pakistan, the conclusion of first barter trade agreements. At the same time, the factors constraining the development of relations remain the same: Pakistan's lack of its own financial resources does not promise Russian business benefits from the implementation of major projects, and cooperation in security issues (including military and military-technical cooperation) requires taking into account the possible reaction of India.

Bangladesh

In 2025, a new permanent government is expected to be elected in a general parliamentary election, but the issue may take longer to be resolved. According to Article 123 of the Bangladesh Constitution, a new general election must be held within 90 days of the dissolution of Parliament (Parliament was dissolved on August 5, 2024), and the old government is considered to be in office and cannot resign until a new one is elected. After Bangladesh Prime Minister Sheikh Hasina fled the country on August 5, 2024 and her government resigned, parliament was dissolved, and the military formed an interim government led by Muhammad Yunus, the provisions of the basic law were violated and the approximate dates for the election were never announced.

A new general parliamentary election in Bangladesh requires a revision of the constitution, which, under the current circumstances, is only possible through the convening of a constituent assembly. The election of a new government can take place only after the constituent assembly adopts a new constitution. For this purpose, on September 11, 2024, the interim government announced the establishment of a Constitutional Reform Drafting Commission. The preparation of a roadmap that will determine how delegates to the constituent assembly will be elected is ongoing. The Army Chief General Waqar-uz-Zaman estimates that the election of a new government will take 12-18 months¹⁹⁶.

¹⁹⁵ Azm-e-Istehkam Multi-Domain Campaign to Eradicate Terrorism // Ministry of Information and Broadcasting. 2024. 22.07. URL: <https://moib.gov.pk/News/63047#:~:text=Government%20of%20Pakistan&text=Quoting%20a%20declaration%20issued%20by,of%20terrorism%20from%20the%20country> (Accessed: 27/12/24).

¹⁹⁶ Bangladesh Army Chief Gives Timeline for Democracy, Seeks Election in 18 Months // The Hindu. 2024. 24.09. URL: https://www.dhakacourier.com.bd/news/Nation_this_week/Army-Chief-General-Waker-uz-Zaman-said-Bangladesh-should-return-to-electoral-democracy-in-12-18-months/8557 (Accessed: 27/12/24).

Despite major domestic political changes, there will be no radical changes in the fundamental principles of Bangladeshi foreign policy in 2025. In the international arena, Bangladesh will continue its course of balancing between major powers. Bangladesh will not abandon its policy of maintaining equidistance between India and China, despite a certain cooling in relations between Dhaka and Delhi due to a wave of attacks on Hindus living in Bangladeshi territory in August 2024. At the same time, the interim government headed by Muhammad Yunus will continue to show increased interest in US concessional loans. In September 2024, an agreement was signed between Bangladesh and the US Agency for International Development to provide a USD 200 million grant to the Bangladeshi side to implement the reform program outlined by the interim government.

In 2025, we can expect further development of ties between Dhaka and Moscow. Despite a possible shift in the timeframe, the flagship of cooperation will remain the project for the construction of the Rooppur NPP by the Russian state corporation Rosatom in Bangladesh. The project is in its final stage: in October 2024, the assembly of the reactor for the first unit was completed, and the head of the interim government, Muhammad Yunus, has called on Russian entrepreneurs to increase investment in the Bangladeshi economy. If Dhaka fulfills its obligations to repay interest and principal to the Russian side in a timely manner and Russia's cooperation with Bangladesh is not hampered by the threat of new secondary sanctions from the West, the first unit could be commissioned as early as 2025.

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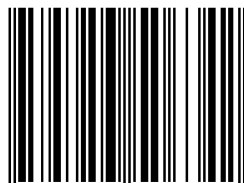
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