

RUSSIA AND THE WORLD: 2023 IMEMO FORECAST

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Abridged English-language version of the annual IMEMO forecast 'Russia and the World: 2023' is dedicated to the analysis and the forecast of key trends in the world economy and international relations in 2023. The paper is based on decades-long IMEMO experience in forecast research. The primary focus is on the issues that are of fundamental importance for Russia in the near (2023) and more distant future. Experts come to the conclusion, that the ongoing Ukrainian conflict will have an impact on the situation in the socio-economic, energy, foreign policy, military and political spheres. By a synergetic effect, the military-political conflict is aggravated by its overlap with multiple global deformations caused by the 2019–2021 pandemic as well as climate change, which altogether have resulted in rising food and energy prices. In the world economy, the authors of the paper expect the divergence of country economic growth trajectories and increased competition for technological dominance; the global food problem acquiring crisis traits. In the world trade due to the US–EU and US–UK joint energy security efforts and the growth of oil, petroleum products, and gas trade Transatlantic linkage will grow further. At the global level, the energy transition will take longer and cost significantly more than previously thought. In spite of unprecedented sanctions pressure, the global market offers Russian companies opportunities to circumvent Western sanctions. Also, the sanctions regime is constantly adjusted so that it does not cause excessive damage to the functioning of world markets and the economies of the sanctioning countries. When the world enters a post-conflict phase, the key factors affecting the world order will be: the format of US–China relations development – fierce competition vs. economic and military-political confrontation; the dynamics of Transatlantic relations; Russia's policies and the emergence or absence of opportunities to normalize its relations with the West.

Keywords: *Russia, conflict, crisis, global economy, world politics, world order, Russian economy, Russian foreign policy, global forecast.*

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Сокращенная англоязычная версия ежегодного прогноза ИМЭМО РАН "Россия и мир: 2023" посвящена анализу и прогнозу ключевых тенденций в мировой экономике и международных отношениях в 2023 г. Работа основана на многолетнем опыте ИМЭМО в области прогнозирования. Основное внимание уделяется вопросам, имеющим принципиальное значение для России в ближайшем (2023 г.) и более отдаленном будущем. Эксперты приходят к выводу, что текущий конфликт на Украине окажет влияние на ситуацию в социально-экономической, энергетической, внешнеполитической, военно-политической сферах. Военно-политический конфликт усугубился синергетическим эффектом, накладываясь на многочисленные глобальные деформации, вызванные

пандемией 2019–2021 гг., а также проблемами климата, что в совокупности привело к росту цен на продовольствие и энергоносители. В мировой экономике авторы статьи ожидают расхождения траекторий экономического роста стран и усиления конкуренции за технологическое доминирование; глобальная продовольственная проблема приобретает кризисные черты. В мировой торговле в связи с совместными усилиями США–ЕС и США–Великобритании по обеспечению энергетической безопасности и ростом торговли нефтью, нефтепродуктами и газом трансатлантические связи еще более усилятся. На глобальном уровне энергетический переход займет больше времени и обойдется значительно дороже, чем предполагалось. Несмотря на беспрецедентное санкционное давление, мировой рынок предлагает российским компаниям возможности для обхода западных санкций. Кроме того, санкционный режим постоянно корректируется таким образом, чтобы не наносить чрезмерного ущерба мировым рынкам и экономикам стран, применяющих санкции. Когда мир вступит в постконфликтную фазу, ключевыми факторами, влияющими на мировой порядок, станут: формат развития отношений США и Китая – жесткая конкуренция vs. экономическая и военно-политическая конфронтация; динамика трансатлантических отношений; политика России и появление или отсутствие возможностей для нормализации ее отношений с Западом.

Ключевые слова: Россия, конфликт, кризис, глобальная экономика, мировая политика, мировой порядок, российская экономика, внешняя политика России, глобальный прогноз.

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INTRODUCTION

The paper presents an abridged version of the 21th anniversary annual IMEMO forecast ‘Russia and the World: 2023’ [1]. It has become a good tradition to publish an English-language version of the forecast in the first issue of the scientific online edition ‘Analysis and Forecasting. IMEMO Journal’ [2], giving an insight into the thinking of a part of the Russian academic and policy community and encouraging academic debate on the critical issues for the global economy, world politics, Russian foreign policy, security and economy.

GLOBAL POLITICAL TRENDS

World development in 2023 will be determined by the following:

First, the cumulative impact of the full range of political and military-political factors inherited from the post-World War II era, as well as those that emerged in the post-bipolar decades.

Second, long-term exogenous global trends on the one hand, and, on the other hand, the effectiveness or failures of strategies and tactics to solve exogenous problems (the geopolitics of climate change, the contradictory dynamics of global food security, outbursts of instability caused by government policies to tackle *COVID-19* – as in the case of the disturbances in China in late 2022).

Third, the crisis-ridden military and political dynamics and the high possibility of new ‘black swans’ emerging against this background.

The ongoing Ukrainian conflict will have an impact on the situation in the socio-economic, energy, foreign policy, military and political spheres not only on the continent, but also globally. The depth of the crisis is also caused by a synergetic effect. The military-political conflict is aggravated by its overlap in time with multiple global deformations caused by the 2019–2021 pandemic as well as climate change, which altogether have resulted in rising food and energy prices and shortages.

The events of 2022 have launched the flywheel of world reorganization. The long overdue phase of its reformatting is entering an active phase, with no clear reference points yet, but a high probability of changing the most important constructs laid down in the postwar architecture and as it seemed updated with the overcoming of bipolarity.

The year 2022 revealed the weaknesses of this overcoming and identified the key troublesome imperatives of the reorganization, in all spheres and at all levels. However, not all of the emerging shifts can be viewed solely as a result of the events of the past year – their roots are much deeper. At the same time, it is difficult to foresee the scale and time depth of the expected shifts. Currently, the horizon of many of them is determined primarily by the expected duration of the crisis, i.e., the period of 2023–2024.

The tension on the political track, which in 2022 led to a sharp confrontation between Russia and the West, essentially derives from the chaotic and *incomplete collapse of the bipolar system*. Along with drastic political and economic changes in the European landscape, the new realities emerging on the continent in 1989–1991 were not completed and ratified by a new ‘Yalta’; deep contradictions unfolded in the interpretation of these changes and in the agreements reached. The Russian side perceived NATO expansion as imbalanced and undermining the equilibrium, which caused a sharp counter-reaction. The starting point of the escalating confrontational spiral was President Vladimir Putin’s famous speech at the Munich Security Conference in 2007.

The events of 2008 (South Ossetia) and 2014 (Crimea) contributed to the development of this trend. Nevertheless, they were not perceived in the West as real geopolitical and military-political risks and challenges. The stereotypical thinking in the paradigm of spheres of influence still prevailed. At the same time, Russian concerns, whether real or imaginary, remained, again due to the same inertia in thinking, on the periphery of the West’s attention. The West was primarily focused on the other challenges: the strengthening of China’s position, which was changing the global balance; the acute financial crisis of 2008–2009; instability in the Middle East and North Africa (which, *inter alia*, triggered the migration crisis in Europe); the rising of climate change issues on the global agenda; and, to top it off, the two-year shock caused by the pandemic.

Against this background, at the end of 2021, Russia delivered an ultimatum to the West, demanding a profound revision of security formats in Europe (see IMEMO forecast ‘*Russia and the World: 2022*’ [3]). And at the very beginning of 2022, there were some faint signs of the West’s readiness to dialogue. Moscow was also encouraged by the successful operation under the CSTO to assist President Tokayev in stabilizing the situation in Kazakhstan.

However, further events disproved the vast majority of moderate Russian and foreign forecasts. Let us note, however, that in the IMEMO forecast ‘*Russia and the World: 2022*’, the expected development of events was described as follows: ‘In relations with Ukraine, it is impossible to completely exclude either the scenario of unfreezing of the conflict in Donbas, or aggravation of the general confrontation. The war of nerves ... is also fraught with the transition to uncontrolled escalation, which is further exacerbated by the military and political support for

Kyiv from Western countries. Under such circumstances, an increase in the degree of conflict in 2022 looks quite probable, and preventing the situation from collapsing into an uncontrolled chain reaction can already be considered a positive scenario. However, the continuation of the current situation, including the support of the West, primarily the USA, seems to be a possible option' [3, p. 27].

Most of the forecasts, even when they stated extremely dangerous escalation of tensions, doubted that it would come to a large-scale military conflict because the goals and costs of such a conflict seemed prohibitively high.

By the turn of 2022–2023, there remained high uncertainty not only about the resolution of the Ukrainian conflict but even about the signing of a cease-fire agreement. Moscow, as its opponents assumed, was counting on it as a means to secure its presence in the territories it controlled. Kyiv, meanwhile, considered it impossible to give up on restoring their former status, including by military means. The issue of the extent and limits of the US and other Western countries' support for Ukraine became crucial.

Based on the idea that *the process of the collapse of the bipolar system* is incomplete as one of the main reasons for the crisis of 2022, it is logical to assume that with the end of the Ukrainian conflict, a fundamental transformation of the political and military-political foundations of the post-bipolar and postwar world order may begin in order to strengthen strategic stability in the Euro-Atlantic-Asian region. First and foremost, nuclear security issues will require special attention, notably amid the beginning of *the new round of military buildup* triggered by the Ukrainian conflict.

However, there is no clarity on how the revision of the existing world order can proceed. After all, it will have to affect the deepest layers of world politics: how to build global and regional hierarchies, what adjustments should be made to the processes of globalization/regionalization, and what mechanisms and algorithms are needed to manage the international system and its segments. Many of these problems are rooted in previous decades, and it will take a long-term effort to set up a new way of solving them.

In 2023, the balance between *globalization* and *regionalization* processes will likely continue to change, primarily in the Pacific and South Asia megaregion. The self-sufficiency, cultural and civilizational distinctiveness of the region and its countries, bound by a large number of regional economic arrangements, while preserving, as IMEMO experts note, a relatively cautious response of states to external pressure, determine the maintenance of *the dominance of regional trends*. One can expect that this will result in the choice of an independent, relatively balanced approach to interaction with Russia. Fierce competition in the technological sphere between the US and China will continue to have a great influence on strengthening regionalization. At the same time, India has a chance to take advantage of global formats in the technological field.

The general global trend towards technological sovereignty also fuels *the fragmentation* of the global world, which is especially evident in the sphere of military and technical cooperation. According to IMEMO experts, under conditions of growing *fragmentation*, the main line of interaction will be the strengthening of military-political ties and complex systems of alliances of the great powers. This sharply increases the role of the military factor in the foreign policy of countries and the formation of their coalitions: the securitization of global high-tech markets is clearly illustrated by the example of the US technological war with China and the global energy market – by the example of the sanctionary conflict with Russia. Under these circumstances, one should also expect changes in the superstructure of export controls, with possible supplementation of existing regimes, such as the Wassenaar Arrangement, with group coordination schemes close to Cold War-era CoCom.

This process will increase *the fragmentation of the world along military-political lines*. As a result, arms trade and military and technical cooperation as a whole will finally lose even the outward signs of a global market for military goods and services. Military-technical cooperation is likely to become a specific form of military (self-) assistance within blocs.

In the current context of changes in the fragmenting world order, cooperation will be supplemented by the creation of unified research and production platforms within blocs, including dual-use ones. The possible disintegration of global markets of technologies and high-tech goods directly stimulates the growth of import substitution, which means the maximum closure of the flows of resources, goods and services within blocks, without taking the crucial parts of the chains outside. Military and technical cooperation, along with cooperation in the production of microelectronic items, has one of the most significant potentials in this area. Therefore, one should expect its growth with the prevailing closure of chains within groups of countries that are politically and militarily connected.

Fragmentation along the military-political line does not always coincide with regionalization processes. It is highly likely that *in the growing trend of regionalization, its basic trade, economic and technological components will increase, while the role of political and ideological factors will play a small or diminishing role*. This goes counter to the increasing ideologization of the globalization process in recent years.

While the trend towards *a gradual reduction of US involvement in Middle Eastern affairs* remains, the independent approaches of both individual countries of the region and *the ad hoc partnerships* emerging there will occur. Security (taking into account regional conflicts) and energy issues will remain the key parameters of interaction/confrontation there. Experts point out the previously arisen trend towards a decrease in conflicts in the region, but in 2023 its level may increase, partly indirectly connected to the Ukrainian conflict. The latter indirectly involved Iran, where serious social protests continued in late 2022.

Israel will retain a key security role in the Middle East, but Turkey will remain the most active actor in the region in 2023, as in the previous two years. During the confrontation in Ukraine, Turkey significantly strengthened its position and *status as a regional power (even with some global claims)*. If R.T. Erdogan stays in power in the elections in 2023, in the nearest future one can expect a further foreign policy advance of Ankara in many directions – in the Turkic area of Central Asia, in the South Caucasus, not excluding the steps to normalize relations with Yerevan to consolidate the results of the settlement of the Armenian–Azerbaijani conflict; in the Middle East and North Africa and southward, through mediation in the grain deal; finally, in the West, especially in NATO, in the defense sphere. In other words, in case R.T. Erdogan wins the elections, Turkey may turn out to be almost the only political and economic beneficiary of the 2022 crisis and will actively exploit this asset.

The Turkish case thus becomes on a par with the process of the major (India) and medium (Vietnam) regional powers *acquiring more subjectivity* with a relatively independent position in their relations with the outside world; with the growth in recent years of their influence on changes in regional and global balances.

Multidirectional trends are developing in the Central Asian region, with *the military-political factor becoming more dominant*. On the one hand, the countries, despite disagreements and even outbreaks of hot conflicts (Tajikistan–Kyrgyzstan), have begun to pay more attention to the intra-regional ties. On the other hand, within the framework of the traditional multi-vector foreign policy, attempts are being made to obtain additional security guarantees from external partners (primarily Kazakhstan–China). Experts believe that the events of 2022 put an end to the period of timelessness which occurred for the Central Asian countries after the collapse of the bipolar system and determined the multi-vector nature of their policies, which is typical of the limitrophe states. The countries of the South Caucasus will also continue to actively seek additional external security guarantees.

In the expert community, there is some skepticism about the idea of a multipolar world, formulated at the end of the last century. Its relevance, taking into account what is happening in world politics, is often questioned – describing the current state of international relations as rather asymmetric bipolarity. This is, firstly, about the relative cohesion of the West around the US, which postpones the prospects of forming a true multipolarity, and secondly, about the lack of consolidation of regional non-Western centers of power, which makes this system unstable.

Indeed, in the global military-political mainstream in 2022, there was a kind of revival (albeit temporary) of *the passing unipolar model* – with the dominance of the US in a pro-Ukrainian coalition, that included not only Western countries. It is important to note that USA, in late 2022, after the midterm elections in the US and the CCP congress, slightly reduced the tension in relations with China seeking if not to involve it in the coalition, then at least to guarantee its greater neutrality.

However, tough competition between the US and China in the technological sphere will continue in 2023 and onward. The issue may become more acute in connection with the preparations for the American elections in 2024. However, it is possible that already in 2023, *the securitization, even the militarization of the global agenda, bringing the issues of war and peace to the forefront (for the first time in decades!)* will already create the preconditions for the beginning of the revision of the international security system – possibly with the participation of China, which would contribute to the strengthening of strategic stability.

Also, in 2023, the necessity of transforming the system of international institutions created as a result of World War II, especially the UN, will be on the global agenda. The long overdue need for their reform found additional evidence during the crisis of 2022.

At the same time, beyond the horizon of 2023–2024, it is difficult to assume the preservation of unipolar world order, in fact, randomly given a second breath.

Among the main reasons and factors, there are financial, economic, and sociopolitical problems, which the West will face to a greater or lesser extent in 2023, and the upcoming 2024 US elections and possible deviations in the country's foreign policy connected with them. Within the Collective West, which has shown unprecedented cohesion despite serious financial, economic, and energy difficulties, gradual deconsolidation (both in the Transatlantic format and within the European Union) is quite expected after the end of the Ukrainian crisis.

As early as 2023–2024, if and when the world enters a post-conflict phase, the key factors affecting the world order will be:

- first, the format of US–China relations development, fierce competition vs. economic and military-political confrontation;
- second, the dynamics of Transatlantic relations;
- third, Russia's policies and the emergence or absence of opportunities to normalize its relations with the West.

At this stage, especially when the force component of international relations has gained importance comparable to that of the Cold War era, it is *not the unipolar format* that will be needed to preserve peace and stability *but the responsible and cooperative leadership of major powers* – starting with the United States and China, but also including Russia, India and other centers of influence gaining a higher degree of subjectivity. However, the formation of such an international system will require both time and overcoming the current crises of world development.

Against the background of forceful confrontation in international relations, a new phenomenon emerged in the sphere of domestic political development in many Western countries in 2022. Judging by the elections held in France, Germany, Italy and the United States, *society in these countries is moving away from radical and extremist positions and is favoring a moderate broad political center.* Moreover, it is the 2022 crisis that could have served as a general consolidating and warning backdrop. Perhaps even a greater role was played by fatigue and stress experienced during the pandemic; fear of new financial and economic difficulties; hope for government assistance; disappointment and disbelief in extreme forms of protest; and finally, *the need and desire to return to old normality.* An illustrative example is the case of the European Union, where the main responsibility in responding to crisis situations was taken not by integration structures but by nation-states.

The conflict in Ukraine corrected the IMEMO-2022 forecast regarding the dominance of the domestic agenda over the foreign one, as well as the rise of nationalism in European

countries and the US. On the contrary, society there has shown empathy and, according to the polls, tolerance towards refugees from Ukraine, and even a willingness to withstand serious economic difficulties. At the same time, should the conflict become protracted (or after its end), in Western society, one cannot rule out a rebound, the emergence of an opposite dynamic, a kind of low base effect. This could have an impact on domestic political stability (especially in European countries).

GLOBAL ECONOMIC TRENDS

The divergence of country economic growth trajectories against the background of growing global mistrust. The deferred effects of so-called unconventional monetary policy accumulated since the first global financial and economic crisis of 2008/2009, supply shocks induced by disruptions in global production and trade chains due to mobility and business restrictions caused by the global pandemic of coronavirus disease, escalated economic contradictions between the leading centers of the world economy, resulting in trade conflicts and so far limited trade wars, mistakes in choosing the speed of Energy Transition in the EU, disorganization of global commodity markets as a result of the Ukrainian crisis, unprecedented sanctionary pressure on Russia and Russian counter-sanctions policies, and increasing negative effects from climate change have interrupted a strong 6.0% rebound in the global economy in 2021 after the 3.0% decline in 2020 caused by COVID-19.

Global economic growth in 2023 will be significantly determined by the dynamics of the economies of China and India, as well as other Asia-Pacific countries relying on free trade agreements, efficient regional added-value chains and low labour costs. Despite a slowdown intensified by negative external factors, China's economy will grow by 4.5%, accelerating from 3.0% in 2022, especially if zero-COVID policy is eased. India's economy is less vulnerable to negative shocks and will grow by 7.0%. Vietnam and Indonesia will keep their economic dynamics high.

In developed countries, the growth rates will significantly slow down from 2.6% in 2022 to 1.2% in 2023. Europe will find itself in a particularly dramatic situation, with its economy possibly going into recession. A decline in economic activity, the depth of which will be determined by the intensity of the crisis in gas and electric power markets, will be observed in the biggest European economies of Great Britain and Germany (-1.0% and -0.5% respectively). The US, under the optimistic scenario, would avoid a recession primarily because the unemployment rate is still low and many service industries, recovering from lockdowns and restrictions of 2020 and 2021, are on the rise. A possible scenario for 2023 could be stagflation in Europe and the United States, with stagflation, unlike in the 1970s, developing against a background of significantly higher debt levels of governments, households, real sector corporations, banks and financial institutions, making it especially difficult to overcome the stagflation mode.

A significant new factor with a strong negative impact on global economic growth has been the sharply increased level of mistrust between countries. Growing geopolitical contradictions have gone beyond the boundaries safe for economic growth. Geopolitical tension, and open and latent conflicts have reduced the priority of rational economic considerations and motivations for economic policy coordination.

A combination of supply and demand factors, the fragility of the financial sector amid the growing influence of geopolitics on economic growth and increasing economic irrationalism will result in global GDP growth by the end of this decade below the trend levels of the previous decade.

Demographic factors will have an increasing influence on the dynamics of global economic growth by the middle of the decade. A slowdown or even cessation of population growth, combined with rapid aging in many developed countries and China, will slow the labor supply and divert resources from investments to maintain the social and pension systems.

The Fed's key interest rate hike. The key driver of global economic and financial dynamics remains the US Federal Reserve's policy of raising the key interest rate (federal funds rate), which was

started in June 2022. The US Central Bank aims to reduce the annual consumer inflation rate to the target of 2%, avoiding a significant increase in unemployment and a hard landing of the economy. Higher interest rates put downward pressure on financial asset prices, the stock market and the mortgage market, but they raise borrowing costs for consumers and manufacturers, discouraging investment. A recession in the US economy in 2023 is possible, but market players believe the Fed will loosen monetary policy if there are signs of a recession. With current inflation levels higher than nominal interest rates, the real interest rate remains negative. To suppress aggregate demand, the target interest rate must be raised to a level that brings inflation and inflation expectations under control before they become entrenched in the behavior of economic agents.

The inflationary wave. The deferred effects of pumping the economic system with money since the beginning of the 2008/2009 crisis and the numerous supply shocks caused by various reasons triggered an inflationary wave as early as mid-2021. In mid-2022, 69 countries with a combined population of 2.1 billion people recorded double-digit annualized inflation (in mid-2021 double-digit inflation was observed in 23 countries with a population of 0.9 billion people). Inflation in developed countries in 2022 reached the highest levels in the last 40–50 years.

An important driver of inflation is soaring natural gas prices in Europe, which transferred into higher electricity prices and gas spot prices in the APAC, as well as significant price increases for greenhouse gas emission permits in the EU and the UK. Rising prices of energy and other raw materials are being reflected in the price of manufactured goods, especially in the chemical industry, including mineral fertilizers, which ultimately boosts food commodity prices. A significant contributor to the unwinding of inflation was the rise in food prices. The crisis in Ukraine, which is one of the world's largest exporters of wheat, sunflower seeds, livestock feed and sunflower oil, has exacerbated the situation.

Leading indicators show that inflation peaked in the third quarter of 2022 and is likely to slow in the last three months of the year. In the US, the peak of 9.1% was passed in June, and by December, inflation fell to an annualized rate of 6.5%. By the end of 2023, the rate of price growth will have fallen to long-term trend levels. However, a high degree of uncertainty remains.

The course towards technological sovereignty and increased competition for technological dominance. The development of the high-tech sector and high-tech markets in 2023 will be under pressure from geo-economic and geopolitical competition between the world's leading economic centers, primarily the US–Chinese technological 'war' and the widespread desire to put mega Internet corporations (Big Tech) under greater control.

The US will continue to increase sanctions' pressure on China in order to limit as much supply of advanced microcircuits, technology and semiconductor manufacturing competencies to Chinese companies as possible and will also try to close the opportunities for technological export and technology transfer through third countries. As part of both formal and informal pressure schemes, the US will seek to reduce China's scientific and technological cooperation with Western European, especially British and German, scientific and university centers. In the EU, there is a growing trend to reduce technological dependence on China. China's ability to respond to US sanctions and unfriendly European initiatives is limited. As a result, the process of relocation and regionalization of production chains in the semiconductor sector will accelerate, also due to political reasons. The process of formalization of sanctions, regulatory, trade and investment barriers between the United States, Europe, Japan and India on the one hand, and China on the other hand, will intensify.

In the logic of localization of production and response to economic and geopolitical challenges, new large-scale programs to subsidize national manufacturers in the semiconductor sector will be implemented in the US, EU, China, Japan and South Korea, which will strengthen the trend to create selectively parallel production chains, leading to further disruption of established market mechanisms of global production and scientific and technological cooperation in this sphere, which was deepening for more than two decades.

Against this background, the US, China and the EU, albeit with varying intensity, will intensify their policy of strengthening control over Big Tech corporations. In China, this process is entering

its final stage, which contributes to the slowdown of the high-tech sector and the economy as a whole. In the US, lawsuits against Big Tech are to begin in 2023, and a number of regulatory actions against Internet monopolies will be initiated. Against the background of tightening monetary policy, this is fraught with further bursting of the Internet bubble on the capital market (Big Tech, unicorn startups, etc.) with negative cascading effects for the venture capital industry, Internet sector and hi-tech as a whole.

World Trade. Against the background of slowing global economic growth, world trade in January–August 2022 was developing quite dynamically. China strengthened its position as the world's leading exporter. Mutual US–China and EU–China trade continues to grow. Neither the US nor the EU is aiming to curtail trade with China; the increasing protectionism and technology war affect only key sectors and industries for the Fourth Industrial Revolution.

Rising prices on all types of raw materials and petroleum products played in favor of the US, which is the largest exporter of raw materials – the growth of the value of US exports accelerated. The US increased its energy exports to Europe especially noticeably, where US liquefied natural gas and partially oil occupy the vacated Russian niches. The US–EU and US–UK energy linkage is formalized by political agreements on joint energy security efforts, so the growth of oil, petroleum products, and gas trade in the Transatlantic linkage will further grow.

The climate agenda and the green economy transition. The results of the COP27 climate summit in Egypt in November 2022 reflected the reshaping of the global climate agenda. Developing countries have shifted the focus to the financial aspects of decarbonization and methane emissions reduction, making their climate policies directly dependent on financial assistance from developed countries. The latter have failed to fulfill their promises made at the 1992 Earth Summit and at the conclusion of the Paris Climate Agreement in 2015 to provide \$100 billion annually to developing countries to support their decarbonization and methane emissions reduction efforts. Rising prices for imported oil and natural gas, the need to repay foreign debt and fiscal capacity weakened by COVID measures are forcing developing countries to promote coal-fired electricity generation, relying on their own coal reserves. At the global level, the energy transition will take longer and cost significantly more than previously thought.

Overall, at COP27, the global climate debate has shifted from the problem of mitigating greenhouse gas emissions through the economic displacement of fossil fuels to the problem of adapting to global warming. An important breakthrough was the legitimization of the use of so-called nature-based solutions to achieve net zero goals.

To compensate for the loss of imports of Russian gas, coal, oil, petroleum products and other raw and intermediate products, the EU has to bring mothballed coal-fired power plants back into operation and extend the life of nuclear power plants, which is currently slowing the energy transition. However, the return to fossil fuels and nuclear power will prove to be temporary. Government subsidies, investments and other forms of support for green energy continue to grow both at the EU level and in leading European economies. Moreover, the unprecedentedly high prices for gas objectively create incentives for the advanced development of solar and wind generation, as well as make hydrogen, biomethane and other natural energy sources more cost-competitive.

The US is accelerating the energy transition, of which natural gas, coal and oil are an organic part, if industrial carbon capture and storage systems are used on a large scale. Passed in August 2022, the Inflation Reduction Act calls for the federal government to provide more than \$370 billion in tax credits and subsidies to support decarbonization and energy infrastructure modernization to adapt to receiving electricity from new renewable energy sources through and including 2031, as well as the promotion of electric vehicles. The benefits will be granted exclusively to American and North American companies, since the law requires an increase in the national content in the cost of production. In fact, the trend towards political reshoring to North America of industries that are crucial for the green transition has been consolidated. Technological and investment protectionism in favor of North American manufacturers aims, among other things, to reduce the dependence of the American and global economies on China, the world's largest exporter of environmental products, at the same time undermining the competitive position of European

companies. American green protectionism is also aimed against South Korea (a major exporter of electric cars) and Malaysia (solar panels).

Sanctionary pressure on Russia. Although primary and secondary sanctions have long been common economic policy of the US and the EU, for the first time, one of a relatively large economies of G20 has found itself under unprecedented sanctions' pressure. Russia accounts for 1.8% of global GDP, 2.2% and 1.3% of global merchandise exports and imports, respectively.

The main goals of the first wave of Western sanctions were: first, to prohibit Russian companies and banks from using the dollar and the euro in settlements with counterparties; second, to cut off Russian companies from international trade as much as possible through bans on air and maritime traffic, as well as the option to buy financial and insurance services; third, bans on the export of high-tech goods and technologies; and fourth, the suspension of investment and withdrawal of foreign investors from Russian projects. At the core of the second wave of sanctions, which will come into force in late 2022 and early 2023, there are restrictions on the import of Russian oil and petroleum products.

The global market offers Russian companies wide opportunities to circumvent Western sanctions. In addition, the sanctions regime is constantly adjusted so that it does not cause excessive damage to the functioning of world markets and the economies of the sanctioning countries. At the end of 2022, the European embargo will be complemented by the introduction of a price ceiling, which is promoted by the US and other G7 countries.

European energy crisis. Mistakes made by European macro and industry regulators in determining the acceptable safe rate of energy transition and in designing natural gas and electricity markets, contradictions with Russia over the institutional structure of the European natural gas market (long-term import and export contracts versus spot market), large-scale EU and UK sanctions against Russian energy resources, and Russian counter-sanctions have plunged the EU and UK economies into an acute energy crisis. At present, the main factors of the crisis are the shortage of gas supply, which causes unprecedented high prices for gas and electricity. In 2021, Russia exported 153 billion cubic meters of pipeline gas to Europe. Russian gas has traditionally accounted for about 40% of Europe's gas consumption. In 2022, pipeline exports were estimated to be no more than 68 bcm or 44% of the 2021 level. Despite the sabotage that knocked out Nord Stream I and Nord Stream II pipelines, technical capacity to increase Russian gas exports to Europe using gas pipelines running through Ukraine and Poland remains. In October 2022, Russia and Turkey began to create a gas hub on Turkish territory aimed at European markets, but, at the moment, geopolitical contradictions and economic considerations make the prospects of this project highly uncertain.

Despite extraordinary measures of financial support amounting to several percent of GDP, Europe's energy poverty has risen sharply, gas-intensive industries have been curtailed, the coal-fired generation capacity in the electricity sector has been reactivated, and the exit from nuclear generation has been suspended. At the cost of reduced current consumption and a significant increase in imports of liquefied natural gas, including that from Russia, Europe has managed to accumulate significant amounts of gas in underground storage facilities by November 2022. Nevertheless, in view of the substantial decrease in gas imports from Russia since August-September 2022, in the fall-winter period of 2022/2023, the EU will have to make a compulsory reduction of gas imports from Russia and, with high probability, rationing of gas consumption, which could lead to a recession. Without a partial resumption of gas imports from Russia, the autumn/winter periods of 2023/2024 and 2024/2025 will be even more difficult, as there is no chance to compensate for the shortfall in Russian gas supply with alternative supplies, despite a significant increase in imports of liquefied natural gas, primarily from the United States. Even in the best-case scenarios, it will take years to restore the normal functioning of European energy markets.

Global Food Security. The global food problem is acquiring crisis traits. The reasons for this, along with the consequences of climate change and the transferring negative effect of the pandemic crisis, have been military and political conflicts and the lack of sustainability of socio-economic systems. In 2020–2021, the proportion of the world's population who suffer from

hunger rose by almost a quarter to 9.8%. If current trends persist, in 2022–2023, it may increase up to 10–10.5%. According to FAO, global spending on food imports in 2022 will grow by almost 11%, and resources for agricultural production (including fertilizers) – by 48%. Food inflation, even in most above-average income countries, has already reached 5–30%. Further prospects are still unclear. According to the current forecast of OECD–FAO, the dynamics of demand for food can outpace the growth of population and agricultural production in the world until 2031. To overcome the effect of these discrepancies, it is necessary to make targeted efforts of the world community to ensure open, predictable, and non-discriminatory world trade in agro-food products and fertilizers according to WTO rules, to provide ‘in-kind donations and resources’ to the most food-insecure countries, and to invest and otherwise promote the productivity and sustainability of national food systems by strengthening global supply chains and reducing food losses. Relevant goals were declared at the G20 and APEC summits in November 2022, and the IMF is already developing a new international instrument of financing food imports and investing in food systems of low-income countries – net importers, which account for about 23% of the world population. Russia can actively engage in these processes, relying on the growing capacity and development of the export transport and logistics system of its agro-industrial complex.

RUSSIAN ECONOMY

In 2022, the Russian economy faced unprecedented challenges caused by a sharp exacerbation of geopolitical tensions. Consolidated efforts of economically developed countries aimed at undermining the economic potential of the Russian Federation created an extremely unfavorable background for the economic development of the country, which steadily deteriorated throughout 2022. The following circumstances were of fundamental importance:

- 1) the freezing of the country’s international assets worth over \$300 billion (with a detailed discussion of the prospects for their confiscation and subsequent use for the support of Ukraine’s economy);
- 2) increasing sanctions pressure connected both with limiting the opportunities for interaction between residents of the sanctioning countries and Russian business entities and with the extension of the corresponding restrictions to residents of third countries planning to continue or develop cooperation with the Russian Federation (secondary sanctions);
- 3) disconnection of the leading Russian banks from international payment systems and the interbank system for transmitting information and making payments SWIFT (with the threat of extending this measure to the entire banking system of Russia);
- 4) forced curtailment of energy cooperation (complicated by the destruction of natural gas supply infrastructure to Europe through the pipelines of Nord Stream 1 and Nord Stream 2 projects), as well as attempts to reduce revenues from Russian energy exports to third countries through the mechanism of price ceilings;
- 5) refusal to cooperate with the Russian Federation in the field of high technology (primarily dual-use technologies) and actual coercion of companies from third countries to take similar steps (in this regard, in particular, Taiwanese and South Korean companies have stopped supplying microprocessors and microcircuits to Russia);
- 6) a full-scale attack on Russia’s foreign trade relations for both exports and imports (including not only high-tech but also standard civilian imports), involving the revocation of Russia’s most-favored-nation treatment in trade (which allows applying a higher level of import customs duties), as well as the revocation of its market economy status by the US in November 2022 (which opens up opportunities for the virtually arbitrary imposition of anti-dumping duties against Russian-made goods).

An additional negative factor was the massive withdrawal of foreign investor companies from the country due to both the effects of sanctions pressure and fears of a general increase of uncertainty in the Russian economy under the influence of geopolitical factors. According

to the Center for Strategic Research, as of the beginning of September 2022, of the 600 largest foreign companies operating in Russia, 34% have limited activities in the country, 15% decided to leave the country and transfer the business to a Russian owner and 7% have declared a complete withdrawal from the market. This factor created significant risks not only in terms of reduced industrial production and supply of quality goods and services to consumers but also in terms of the reduction of high-quality jobs and high-paying employment.

Despite these challenges, thanks to a targeted and effective anti-crisis policy of the Russian Federation, it became possible to avoid significant crisis shocks. Contrary to the catastrophic forecasts, which became widespread in the first half of 2022 (for example, in April, the IMF predicted an 8.5% drop in Russia's GDP for the year), the decline in economic activity was much more moderate. According to Rosstat, the country's real GDP dropped by 0.4% in the first half of 2022 and by 3.7% in the third quarter, which means that the national economy is much more resistant to geopolitical shocks than the initiators of the sanctions anticipated. In the October forecast of the IMF, the decline of production in Russia in 2022 is estimated at 3.4%. According to our estimates, Russia's GDP will decrease by 2.5% in 2022. According to the IMF forecast, Russia's GDP will decline by 2.3% in 2023; according to our forecast, the decline in economic activity will be much smaller. Russia's GDP will decline by 1.5% in 2023.

The key factors that ensured this result were the following. First, thanks to the policy of reorientation of foreign trade relations, as well as adaptation of mechanisms of foreign trade supplies and payment operations to the new sanctions conditions, the country managed not only to keep, but also to increase the surplus of the balance of payments on current transactions. According to the estimates of the Bank of Russia, in January–October 2022, it reached \$215.4 bn. It is more than two times higher than in the same period of the last year. This ensured the inflow of foreign currency into the country in the amounts which allowed to smooth the effect of the freezing of foreign currency assets. The reduction of import operations also contributed to such growth of the active surplus.

Secondly, thanks to the massive support of industrial production (including the defense industry), it was possible to achieve not only the prevention of the recession but also a moderate growth (by 0.4%) of the industrial output during the first-third quarters of 2022. In particular, the output of mining resources in real terms increased by 1.9%, the production of drugs and materials used for medical purposes – by 21.5%, the production of computers, electronic and optical products – by 4.6%, the manufacture of finished metal products – by 3.5%. At the same time, the production of motor vehicles, trailers and semi-trailers decreased by 43.3%, electric equipment – by 4.1%, textile and wood products – by almost 10% each. This was primarily due to the withdrawal of foreign companies from the Russian market, which provided the necessary technology, as well as the reduction of export opportunities (especially in the latter case). Nevertheless, the overall balance of industrial production turned out to be overall positive.

Thirdly, contrary to alarmist expectations concerning the impact of the economic sanctions on the welfare of the population, their effect in this sphere turned out to be pronounced but moderate. According to the official estimates, the real disposable income in January-September 2022 decreased in annual terms by only 1.7%. The main factor of the decrease in real income was the acceleration of inflation (up to 12.6% in October 2022 against the target of 4.0% in annual terms). The corresponding inflation rate in Russia, taking into account the extremely harsh sanctions pressure, was, however, only slightly higher than that in the EU countries (11.5%), which indicates that geopolitical tensions and the breakdown of mutually beneficial economic ties lead to significant economic costs not only for Russia but also for the EU.

CONCLUSION

A sharp decrease in the intensity of Russia's foreign economic relations due to the sanctions policy of economically developed countries and the withdrawal of companies representing them from the country caused the need for an accelerated reorientation of trade and investment

cooperation towards countries with emerging markets. The countries of the Asian continent are the most promising partners. Intensification of relations with the relevant countries can partially compensate for the reduction of Russian energy exports (China, India, Turkey), contribute to the formation of new international value-added chains with the participation of Russian companies (China, ASEAN countries) and provide access to financial resources and options for payment transactions under sanctions (China, the Persian Gulf countries). Prospects for cooperation with other developing regions of the world (Latin America, Africa) in the short term are mainly limited to the foreign trade sphere and can offer additional opportunities for Russian medium-tech exports, as well as for 'friendly imports' of goods demanded by the Russian market.

The main obstacles to the realization of these opportunities are the insufficient development of the Russian export infrastructure in the eastern direction (especially in the transportation of hydrocarbons), as well as fears of potential partners regarding the introduction of secondary sanctions by economically developed countries for cooperation with the Russian Federation and the business entities representing it. In the case of cooperation in the high-tech sector (in particular, in electronics), it is important that the existing international added-value chains involving Asian companies overwhelmingly include companies from developed countries and/or production facilities on their territory, which not only prevents Russian companies from entering these production chains but also undermines the motivation of Asian business entities to establish bilateral ties with Russian companies because of the fear of the negative reaction of the Western partners.

Eliminating the relevant obstacles requires both additional investment costs and increased efforts in Russian economic diplomacy. At the same time, realistic estimates of the willingness of the sanctioning countries to bear the associated costs show that the time needed to implement the corresponding steps works in favor of the Russian Federation.

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