



## **GLOBAL SITUATION: POLITICS, ECONOMY AND DEVELOPMENT UPDATE**

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### **Global Politics**

#### **Fundamental shifts: World order etc.**

The world has entered a period of profound geopolitical transformations. Today this has become a tangible reality. Many politicians ask themselves a far from idle question: What should be done to lead the world out of the bog of confrontation and set it on a “correct” trajectory? Even Western leaders, for example, President of France Emmanuel Macron, have publicly admitted that the era of **Western hegemony is drawing to a close** and call for learning to live without delay in a new global environment, including a new geopolitical context. This call for rethinking is a logical result of the glaring mistakes made by the West in pursuing its foreign policy through methods that are in conflict with modern imperatives and challenges. Another perfectly obvious and overriding factor is the dramatic strengthening of Russia, China and India, the leading non-Western powers which can no longer be disregarded on the international stage. On the other hand, the time is long overdue for formulating an appropriate response to a dangerous rise in tension and conflicts, including military conflicts, as well as the wave of terrorism and the development crisis,

in particular **the crisis of the market economy**, in short, everything that clearly shows that “international relations continue to get steadily worse,” as Foreign Minister Sergey Lavrov said aptly.<sup>1</sup> In addition, we must also take into account the influence of the new global factors, that is, the technological and digital revolutions, which are changing the way people think and communicate.

What are the new global political realities?

It is obvious that there can be no return to the bipolar world dominated by two great powers, which has run its course with the end of the Cold War, and that the unipolar model has no future either. It was nothing more than a “**unipolar moment**” that the Western elites are trying to keep afloat in the military, political, trade, economic and technological fields as the “**liberal order**,” the alternatives to which are allegedly only authoritarian or even totalitarian regimes. In point of fact, this amounts to renouncing any efforts to become masters of their own destiny and accepting the so-called end of history in a different form. The proponents of this order are far from altruistic; they want nothing less than to dominate everyone else and to live at their expense. Moreover, in the current new and interdependent world, where development problems have gained indisputable priority for all countries, including in the West, it would be futile to try to preserve or “renovate” the existing obsolete and cumbersome military-political alliances, both bilateral and multilateral, such as **NATO**, and to further expand them in every direction. These alliances are complicating relations between individual countries (for example, they are hindering the signing of a peace treaty between Russia and Japan) and have come into conflict with the rapidly evolutionising regional context, both in East Asia and in Europe.

The new, rational and fair architecture of international affairs that is taking

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<sup>1</sup> From Foreign Minister Sergey Lavrov’s interview with the MIC Izvestia multimedia information centre, Vladivostok, September 4, 2019. [http://www.mid.ru/en/foreign\\_policy/news/-/asset\\_publisher/cKNonkJE02Bw/content/id/3772418](http://www.mid.ru/en/foreign_policy/news/-/asset_publisher/cKNonkJE02Bw/content/id/3772418)

shape can only be described as a **polycentric world order**. This new system, which has gained traction at the regional and international levels, allows political and economic actors to find solutions that will benefit all sides, so that there are no winners and losers but all sides win. This goal can be attained through mutual empathy as the basis for balanced and well-thought-out approaches that will guarantee full respect for national interests, which should be formulated in a manner that rules out any infringement on the interests of others. In other words, the idea is to conduct affairs not through ultimatums but based on mutual respect and a balance of interests. This is the only acceptable basis for international politics in the new world, provided all sides prefer diplomacy as the basic means of regulating relations between states. This approach also applies to the baseline of international affairs – the economy, now that the free movement of goods and services has reached an unprecedented level, while all sorts of sanctions, including the **technological containment of China**, are only economically viable as a form of unfair competition.

However, the path towards the awareness of this obvious fact is far from simple. Progress on this path is being hindered by the Western reluctance to accept the new realities despite its responsibility for the ongoing **global economic crisis**, which started in 2008, and attempts to counter them with the dangerous concept of a “**rules-based order**.” These rules, generally arbitrary and inarticulate, are applied around the world with the aim of misappropriating the results of globalisation and the achievements of the rising all-inclusive international community, or even to arrest and turn back its development. Attempts are being made to force the world to accept artificial and restricted formats for addressing problems and to reject the principles of openness, inclusiveness and plurality of opinions.

The main proponent of these illegitimate innovations is the United States, which is extolling the benefits of this “order” to its partners around the world. A recent example is the public deliberations about the Asian tigers/emerging economies who allegedly “roared” thanks to the United States, which “was there” with them and who “built” multilateral forums such as APEC and

ASEAN almost single-handed.<sup>2</sup> The implication is that the US claim to exceptionalism and unilateral leadership guarantees the preservation of all the positive achievements in international relations. We see this as failure to recognise that the world has changed, that any infringement on others' national dignity is unacceptable, and that the time is long gone when the United States could behave presumptuously as the "last global superpower" and "last sovereign" (according to Zbigniew Brzezinski), believing that all the other countries can have only "limited sovereignty."

Only a firm and undeviating reliance on the tried and tested legitimate international mechanisms, primarily the UN and its Charter, which the international community has created to deal with even the most difficult problems of global development, provides the basis for acting in the spirit of new realities and for promptly responding to new challenges. The other organisations that have been created after the UN and are being widely used by states and economies include the G20, BRICS, the Shanghai Cooperation Organisation (SCO), ASEAN, the Collective Security Treaty Organisation (CSTO) and the Eurasian Economic Union (EAEU). They should definitely be given support, especially since their member states have demonstrated a desire to take decisions based on the realities of the polycentric world and a balance of interests. This is fully in line with universal principles of interaction rooted in the **Peace of Westphalia**, which ended the European wars of religion and which Europeans should remember when they start to lecture other regions.

Another relevant feature that needs priority attention is the **regionalisation of world politics**. This is fully in keeping with the letter and spirit of Chapter VIII of the UN Charter (Regional Arrangements), which can be given a new lease on life in the new conditions that emerged after the end of the Cold War. This is an unavoidable trend on a path towards a polycentric world with a changed balance of forces and interests. A fair situation will not develop in

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<sup>2</sup> Remarks by US Secretary of State Mike Pompeo at Siam Society on the US in Asia, Bangkok, Thailand, August 2, 2019.

the world unassisted; neither can it be built to obsolete, let alone far-fetched standards. The bricks this new structure is made of are the regional centres of political and economic power and influence. The existing regional multilateral organisations are growing stronger, new regional actors are rising and the regional currencies are coming to play an ever bigger role. Regional organisations are searching for regional solutions to their problems, contrary to the old practices, including in the bipolar world, when solutions were taken to suit the interests of the dominant non-regional powers. An active use of these regional centres, alongside measures to strengthen global strategic stability, can help to boost international security and to promote sustainable economic development. **Russia**, which is uniquely positioned as a **Eurasian power**, is destined to play a huge role in this.

### **A new Cold War?**

It is often said these days that the modern system of **international relations** is becoming increasingly reminiscent of the Cold War. However, it has a number of distinctive features, which rule out the possibility of drawing direct parallels between the period of bipolar confrontation and the present day, such as the important role of other centres of power, primarily China, or the lack of ideological confrontation between Russia and the West, which face common security threats. Although one cannot ignore certain Western elites' attempts to build a new ideological opposition axis – liberalism vs. authoritarianism – to maintain the former status quo. But public opinion in the overwhelming majority of Western countries ignores these attempts, not only due to the general decline in confidence in their establishment, including the expert community and traditional media. The system of political coordinates itself is being radically transformed now, with global challenges and threats, primarily environmental ones, replacing the former left-right agenda.

In contrast to the Cold War era, we are now talking about a “**historical West**” – an entity that was established over a lengthy period of time and was ideologically consolidated due to historical geopolitical imperatives. Therefore, like everything else in history, it is in many ways a transient phenomenon. As the current situation in the **European Union** shows, even on

our continent, the dramatic cultural, linguistic and other differences are becoming more important than what unites us. In fact, this is the main source of the EU crisis. Phenomena such as **Brexit** and **Donald Trump** are evidence of a schism in the Western community, which – under the new conditions and with no threat of a new war – replicates the former antagonism, which had provoked two world wars, at the level of attitudes and political culture. The US and EU member states increasingly differ on many issues, and they often come into direct conflict. The differences in their approaches are especially pronounced when there is no unifying issue to rally around. On the contrary, the emergence of the so-called common “threats,” including an increase in confrontational tendencies between Western countries and Russia, and now China, has generally helped maintain the unity of Western countries and “Western solidarity” in the past decade. But the problem is that this solidarity is at the level of the elites, and is artificial compared with the real problems faced by Western countries, which significantly limits the resources for this policy.

**Washington's current foreign policy** is influenced by a number of very diverse domestic and international factors. These factors include the continuing controversy between the current administration, on the one hand, and the establishment, including the leadership of the Democratic and partially the Republican Party, and the state apparatus (the so-called deep state), on the other. Another factor, relatively new to the United States albeit long-standing elsewhere in the world, is the growing leftist and socialist sentiments among American voters, mainly young people. But even this activism is being modernised and directed against the corrupt elites, their **neoliberal economic policies and the financialisation** of the economy.

In many ways, Trump's foreign policy remains hostage to the domestic political alignments. Any step the new US president makes is used by the hawks acting on the same ideological wave with the deep state to consolidate their positions and block many of Trump's foreign policy initiatives. Perhaps this is where Trump's so-called foreign policy unpredictability is rooted. The US president is simply forced to sometimes demonstrate an anti-Russian

attitude, not so much because it fits into his administration's foreign policy priorities (his stated priorities are the direct opposite of this), but under the pressure of his opponents from the Democratic camp. The corresponding rhetoric and some moves (such as the withdrawal from the INF Treaty) are most likely made for show, although they are fraught with serious consequences for world politics, and have been mainly prompted by the administration's desire to undermine the position of its domestic political opponents.

The most important factor and, at the same time, the key disagreement within the American ruling circles is the objective difficulties experienced by Washington in trying to maintain a leading role in the world at all costs. Over the past decade, the United States has experience increasing competition from other rapidly developing countries, primarily China. Beijing's financial, commercial, economic, and now military power is slowly but steadily becoming converted into political influence and becoming a challenge for the United States, which is desperately holding on to its leading role in international affairs and in the global economy. Hence the dilemma: either to preserve the old global architecture, complete with the post-war foreign policy philosophy and strategic culture, or to destroy it because now it serves to benefit others and to work "transactionally," without discriminating between allies and foes and resorting to manual management as opposed to institutional and regulatory control. Trump the Disruptor clearly sees the futility of the former and chooses the latter.

That is the reason he withdrew from the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) projects. **Globalisation**, a concept proposed and ideologically developed by the Americans, no longer fully suits the American political elites. So leadership in this matter may soon be seized by China, which, unlike the United States, advocates free trade and the global market, where Chinese capital feels increasingly comfortable. Washington responds with a **technological containment of Beijing**. Of course, the new version of **isolationism** fits with America's political culture; it scares its friends and allies and compensates for

the **loss of the Pax Americana empire** at the level of psychological comfort and self-awareness of the elites.

The only rational solution is the transition to equitable relations with other leading states. The United States has never had any experience of that, while confrontation with the Soviet Union had been a mandatory history-conditioned aberration. To fit into the **global “concert of powers,”** America will need time and the inevitable trial and error path, which will be one of the key factors of global instability in the foreseeable future.

Describing the factors affecting Washington’s foreign policy, we must also highlight the weakening of the US positions in the Middle East. The US influence in the Arab world has become questionable due to the many mistakes made by the past American administrations. The Western way of life and Western values imposed on the Arab world do not blend well with traditional societies, which are increasingly rejecting them. The popularity of American politics in the region is declining. After the catastrophic experience of the wars in Iraq and Afghanistan and the intervention in Libya, America now refrains from active military interventions in the region, preferring to give way to more eager coalitions or its NATO allies, especially Great Britain and France. Although it is obvious that these countries are not in a position to shoulder the burden, and the time for massive Western military interventions has passed.

### **Power politics: A genre in crisis**

The failure of the West’s attempts to crush the Syrian and Venezuelan statehood, impose on Ukraine and other countries of the former USSR a pro-NATO course through the backing of criminal actions committed by various terrorist groups and unlawful opposition activities, or the Western security services’ support of Banderite and other anti-Russian organisations are signs that the West’s power politics is in crisis. This “genre in crisis” speaks volumes for many things, primarily the fact that the time of the West’s open military interference in all parts of the globe is almost over. It lacks both the resources and the plausible grounds that could be sold to the public in the West. Interference solves no existential problems, as was the case during the years of

ideological confrontation. It is just a deferred consequence of the Cold War.

It is of equal importance that the comprehensive **modernisation of Russia's Armed Forces**, including the development of advanced conventional and strategic arms systems, the Russian Aerospace Forces operation in Syria, which demonstrates the ability for a smart, limited projection of force in support of network diplomacy and political settlement in the region, as well as the Ukrainian crisis have shown that a highly competitive environment has taken shape in global power politics. The same is true of China's build-up of military capability, something that the United States and its close allies cannot ignore. Nevertheless, they are not quitting attempts to bring military pressure to bear on recalcitrant countries and governments. This is pushing the world and entire regions towards a new arms race, undermining international security, and inflicting damage on strategic stability. In its relations with Russia, Washington prioritises achieving military superiority and eroding strategic parity. It is intensifying efforts to deploy a global missile defence system, including missile deployment areas in Europe and the Far East. NATO is being increasingly active near the Russian border.

Washington's withdrawal first from the ABM Treaty and now also from the INF Treaty has created the risk that the entire **arms control** contractual framework would be dismantled. The future of the Treaty on Measures for the Further Reduction and Limitation of Strategic Offensive Arms (New START) is uncertain as well. The United States is dragging its feet in response to Russia's proposal to agree on the extension of this Treaty after it expires in February 2021. There are signs that the United States is stepping up a war of words to prepare the ground for its final scrapping of the Comprehensive Nuclear-Test-Ban Treaty. In May 2018, Washington also pulled out from the Joint Comprehensive Plan of Action on the Iranian nuclear programme, which was approved by the UN Security Council and is of immense importance for nuclear non-proliferation. All of this may jeopardise the Treaty on the Non-Proliferation of Nuclear Weapons (NPT), a key mechanism in nuclear disarmament and non-proliferation. The world is coming back to the reality that existed before the October 1962 Cuban missile crisis.

In addition, Washington does not rule out deploying weapons in outer space, including as part of its missile defence system, and thus has rejected the Russian-Chinese proposal to agree on a universal moratorium on this type of activity and start talks on preventing arms deployments in space.

As a result, we are witnessing a system-wide **remilitarisation of international relations**, complete with the US military doctrine highlighting the role of nuclear weapons and lowering the threshold of their employment. There are also new seats of armed conflicts (including at the level of open subversion, as is the case with the US military presence in northeast Syria) and efforts to militarise cyberspace. The US administration is also behaving irresponsibly at the practical level by expanding and upgrading its low-yield nuclear weapons that can be regarded as nothing other than battlefield weapons. President Donald Trump's bellicose rhetoric is off the charts. On the whole, the risks of war and nuclear escalation are growing. Moreover, a significant share of responsibility for this rests not only with the United States but also with its European allies, who follow the guidelines of the Trump administration's National Security Strategy on preparing for a conventional war in Europe.

There is no doubt that the increasingly frequent US rhetoric about the possibility of using nuclear weapons in a military conflict forces other countries, including Russia, to pay more attention to strengthening their armed forces.

These international developments bring the world closer to a dangerous red line and cause growing concern in the international community, including among many sober-minded people in the West. Not so long ago, a large group of former influential politicians and military figures from 24 European countries (including Russia and the UK) made a statement urging countries in the Euro-Atlantic region and China to do more to develop risk reduction measures and ensure **strategic stability**. For his part, President Vladimir Putin has sent a special letter to the NATO states and other countries, which calls on them to support the idea of a moratorium on the deployment of ground-based short- and intermediate-range missiles and to resume verification. Regrettably,

our Western partners rejected it out of hand.

Thus, global and European security has become hostage to the geopolitical games that are played by those who seek to preserve their dominance at any cost and reject the reality of the emerging polycentric world system based on the UN Charter. NATO's ongoing eastern expansion and its efforts to build up its missile defence potential, military infrastructure and military activities on the eastern flank have led to a grave confidence crisis in the Euro-Atlantic region.

Russia is insistently urging its partners to abandon their attempts to exacerbate confrontation and comply with the commitments they have assumed at the **OSCE** summits and the **Russia-NATO Council**, where they pledged not to strengthen their security at the expense of the security of other states and to revive constructive dialogue on security and arms control.

It is also clear international and regional security is not feasible unless we settle numerous crises and conflicts in the Middle East and North Africa (and now in Latin America as well), where a number of states, specifically Syria, Libya and Yemen, have fallen victim to geopolitical engineering practiced by the United States and its closest allies. This has resulted in a surge of terrorism, organised crime, arms and drug trafficking, and illegal migration.

Russia is prepared for an honest and in-depth dialogue with the United States and its Western partners at any venues and on all outstanding issues related to global and regional security, strategic stability and a revival of the disarmament agenda. Russia's proposals on launching a serious discussion of all aspects of strategic stability are still in force. The important thing today is to start a strategic dialogue on specific threats and risks and to seek agreement on a mutually acceptable agenda. As Andrey Gromyko, an outstanding Russian statesman whose 110<sup>th</sup> birth anniversary we will celebrate later this year, wisely put it, "Better ten years of negotiations than one day of war."

## Regional politics

### **The Euro-Atlantic region**

In the recent years, Washington's allies in Europe have strived to play a more independent international role, and this policy contradicts the US's evident intent to tighten the discipline among its European partners while forcing them follow the "**American leadership**" course.

In other words, Washington is hoping to use European resources to achieve US foreign policy objectives and gain greater control over its allies while preserving and strengthening its positions in Europe. The whipping up of the "Russian hybrid threat" myth creates favourable conditions for Washington, allowing it to bring its allies to order under this pretext. Hence the US aspiration to cause a rift between the EU countries and Russia through sanctions, their participation in the efforts aimed at demonising Russia and showing it its place. This tactic has proven to be ineffective during crisis in the Western community itself and five years into the acute stage of the Ukrainian crisis. The proof is the meeting between Vladimir Putin and Emmanuel Macron in August 2019 and the voices in favour of the strategic autonomy of Europe in general and from Trump's America in particular. A serious point of contention between the allies was the US withdrawal from the Joint Comprehensive Plan of Action (JCPOA) on the Iranian nuclear programme.

At the same time, **Russia-US bilateral relations** lack a solid foundation such as mutually beneficial joint trade, economic and investment projects. Importantly, there are still no political forces in the United States that would be interested in a progressive long-term peaceful interaction between the two countries. Relations between Russia and the West were unstable even before the crisis. Their foundation, which was established in the 1990s-early 2000s, was not strong enough, and has been almost completely eroded by the sanctions. The concept of pressure through sanctions was outlined in the Countering America's Adversaries Through Sanctions Act, adopted in August 2017 against the backdrop of the allegations about Moscow's interference in

the 2016 presidential election and Robert Mueller's investigation.

The voters' rejection of the draft European Constitution, the debt and migrant crises, Brexit, as well as the fifth enlargement of the EU in 2004 predetermined, at least for the foreseeable future, the limits to the further development of the **European Union** as a supra-national association. It became clear that the deepening of integration and the further expansion of the EU could put into question the existence of the union itself.

The results of the **Brexit** referendum were a heavy blow for the European Union leadership. For the first time, the possibility of disintegration tendencies in the EU shifted from the theoretical plane into practice. Brussels is especially concerned about the fact that Brexit was the logical follow-up of the above-mentioned crisis in the development of the European Union. The UK's troubled exit from the European Union shows how fragile the entire European integration structure is, which is in turn caused by the radically changed global and regional environments. Moreover, as a result of the politicised enlargement and after the introduction of the euro, Europe missed the opportunity for deeper integration and wasted a lot of time. In fact, the interests of European integration were sacrificed to the **expansion of NATO** (the so-called double enlargement) because the EU membership, accompanied by real economic benefits, was the main prize for the new members of the alliance.

In an effort to give an impetus to joint cooperation, the European Commission seeks to boost the development of a common foreign and defence policy. This, however, does not mean that cooperation in this area will develop smoothly or fast. At the same time, in statements of the EU leaders and member states there are already underlying anti-US motives. They note that the EU needs to find a place for itself with regard to the US and the Europeans' resolve to play a more independent role in international affairs. Obviously, the discord between the Europeans and the United States has not run its course. However, as many recent scandals showed, Washington still has important levers to influence the EU countries, and the Europeans still simply cannot counterpoise

themselves to the United States. In this situation, the appearance of a common “threat” such as the alleged “Russian aggression” or the “Skripal case” can become a way to consolidate all EU member states. In addition, as a result of the consensus principle, the EU is now dependant on the position of East European states, which harbor a grudge against Russia (‘the consensus trap,’ which Moscow warned them about). Washington is using these countries, or ‘New Europe,’ to exert pressure on the leading European capitals to secure benefits for itself, including by promoting its shale gas.

There are various forecasts at to the further development of the EU. Some experts believe that in the upcoming years, the Union might be reduced to the Common Market: Brexit is a vivid example of this trend. Others think that there will be a gradual expansion of the euro zone, the deepening of interaction within it, creation of new governing bodies in the euro zone (government, finance minister), a bank and tax unions, collectivisation of debts and the adoption of a common economic policy. In this regard, a lot will depend on Berlin, which receives the biggest advantages from the euro zone, and, consequently, stands to lose the most if it is dissolved (the return of the Deutsche Mark could cause an economic disaster in Germany given its dependence on exports). One thing is obvious: the EU will not be able to turn into an active geopolitical player in the foreseeable future without the normalisation of political relations with Moscow and the development of the Eurasian vector of the united Europe’s international policy. One way or another, even such active Euro-enthusiasts as Jean-Claude Juncker currently speak of a “political crisis in the EU.”

The restoration of Europe’s political unity raises the question of the future of the entire NATO-centred **architecture of European security**, which was transplanted from the previous era with its traditions and rules, including the containment policy, without significant changes and to the detriment of pan-European institutions such as the OSCE, which still has not adopted a charter. Along with NATO, the EU is also to blame for this. The EU acts as a ‘voting block’ in regional organisations and forces its position and regulatory framework (acquis communautaires) on everyone by appealing to its

“advanced level” and the majority principle. There is a growing awareness that this system, which faltered during the Kosovo, Caucasus and Ukrainian crises, requires a radical transformation in order to provide everyone on the continent with equal security and implement the indivisibility principle.

### **The Greater Middle East**

The strike on the Saudi oil infrastructure by Houthi drones (September 15, 2019), which resulted in the Saudi oil production falling almost by half and demonstrated the vulnerability of the kingdom’s strategic facilities, caused serious damage to the economy and image of Saudi Arabia as well as the reputation of the US defence industry as Saudi Arabia’s ballistic missile defence system was built as part of defence cooperation with the United States.

The significance of the attack on the kingdom’s oil facilities extends far beyond the region’s boundaries because it has a direct impact on the global economy. It can be considered retaliation in the economic war against the United States and its allies in the Persian Gulf, and not only an asymmetrical response to the actions of the Saudi-led military coalition in Yemen, which created a huge humanitarian crisis in the country. The situation should be analysed in the wider context of the anti-Iranian policy of the current US administration – the policy that became tougher in the wake of the United States’ unilateral withdrawal from the Joint Comprehensive Plan of Action (JCPOA) – that sees Iran as the primary threat to the American interests in the region. The option of starting a war with Iran has been ruled out so far, among other things, because of Trump’s ambition to be re-elected in 2020. He promised his voters that there would be no more wars in the Middle East involving the United States. This explains why the countries in the region, particularly the UAE, have made attempts to bury the hatchet with Tehran and dial back their involvement in the Yemeni war by supporting the Southern Movement with a prospect of a new division of the country. The pressure from Saudi Arabia and the UAE on Qatar, backed by Turkey, in the matter of attitude towards the Muslim Brotherhood and Iran did not have a

serious effect but caused a rift in the Gulf Cooperation Council (GCC). The failure of the aggressive tactics of the Jihadists against Syria prompted the Gulf countries to seek an ally in Damascus to counter the Muslim Brotherhood.

It is the United States' refusal to look for a compromise, its snowballing pressure – by force, sanctions or otherwise – on unwanted regimes, which now include Turkey (due to its disagreements with the United States over Syria and defence cooperation with Russia), that are escalating tension in the region. The US defence industry is perfectly happy about it as it expects a surge of military purchases by the Arab monarchies. This policy is fraught with potential clashes and provocations both against the energy and infrastructure facilities in the region and against the cargo shipping routes near the Strait of Hormuz and the Bab-el-Mandeb Strait.

Security of the oil and other strategic infrastructure can be ensured by settling the conflict in Yemen and gradually progressing towards a regional security system by all the Gulf states, including Iran – which is what the Russian diplomacy has consistently proposed. In the wake of the Arab Spring, which has exacerbated the tension, Russia became the only moderator country without which the political system in this region could have collapsed. China is following the same direction with its **Belt and Road Initiative**. As concerns regional stability, the consequences of the strategic energy partnership agreement recently signed by Beijing and Tehran (for a term of 25 years with \$400 bln in investment) cannot be overstated.

### Global economy

#### **Geoeconomics: Basic shifts**

The role of the historical West in global economic development processes can be seen in the ratio of its consolidated GDP to the **global GDP**, which, according to the IMF estimates, will amount to about \$87 trillion in 2019 (an 8-fold increase compared with 1980).

So, since early 2000s, the share of GDP of the United States and Western Europe has been gradually decreasing. Over the past 10 years, the share of the United States in global GDP has fallen by 3.8 percentage points, and that of Western Europe by over 7 per cent. Whereas previously Western Europe accounted for nearly a third of the global output, today this number is down to just one-fifth.

When evaluating GDP by the **purchasing power parity**, the United States slid to second place in 2016 with a share of 15.4 percent, whereas China now accounts for 17.8 percent of global GDP.

Should the current trends in the global economy, primarily, the dynamic growth of the emerging economies in Asia, in particular, China, continue, it is highly likely that the role of the United States and Western Europe in global economic processes will decrease in the medium term. **China's share** in global GDP is expected to come near 15 per cent in the coming years. According to Global-finances.ru, China's GDP surged 12-fold in the past 20 years and amounted to almost \$13.5 trillion in 2018. China surpassed Germany in 2007, and Japan in 2010 in terms of this indicator.

However, **trade and currency wars** waged by the United States **and economic sanctions** imposed by it in circumvention of the UN Security Council, as well as Brexit, may introduce certain adjustments to these forecasts. However, the role of the West and its impact on global economic processes will continue to weaken, which should be taken into account by economic agents.

The current situation in the global economy is unstable and unpredictable, and economic **deglobalisation** is a new trend. "Economic egoism" and attempts to replace international law with the "rules-based order" threaten the multilateral trade system and provoke the crisis of its main regulator, the **World Trade Organisation**.

The fundamental principles of non-discrimination and ensuring market access are being eroded and actually revised. US actions and its expanding anticompetitive practices are changing the configuration of global trade, thus

threatening to destroy the very foundation of the modern **multilateral trade system**. A leading economic analyst from Financial Times, Martin Wolf ([martin.wolf@ft.com](mailto:martin.wolf@ft.com)), wrote in his recent blog, “on many points (trade disagreements with the United States) Chinese positions are right,” and “the US focus on bilateral imbalances is economically illiterate.” In addition, “almost all trade policy actions taken by the Trump administration are in breach of WTO rules, a fact implicitly conceded by its determination to destroy the dispute settlement system.”

The main WTO functions – negotiation and dispute resolution – are under threat. The fact that a number of countries have revised the rules to suit their needs, the trend to conclude **regional trade agreements** to counterbalance multilateral ones, stalled negotiations and resolving disputes within the WTO dictate the need to take urgent steps to strengthen the Organisation’s role and effectiveness and to upgrade it through meaningful and institutional internal reform.

Discussions regarding the need to update legal documents have been going on for a long time now. Calls to bring the WTO in line with the realities of the modern world have been particularly persistent recently. In particular, Canada, China, France, Germany, India, Japan, the United Kingdom and the European Commission are in favour of reform, but without ditching the general rules of trade outlined by the WTO. The United States believes that the WTO rules are obsolete and need to be reformed in view of such challenges as the rise of China and the development of the internet. Washington does not rule out withdrawal from the organisation if it does not change for the better. Russia is supportive of the WTO, while recognising the need for improvement. BRICS leaders have called upon the participating countries to comply with the rules and commitments of the international trade system within the WTO. The UN welcomes steps taken by WTO members to strengthen and improve various aspects of the system. Leaders of the **G20** countries reaffirmed their support of the WTO reform during their 2019 meeting.

It is imperative to overcome the fundamental problems of the WTO, which

were laid down at the time of its creation. For example, the consensus principle significantly limits the speed and quality of decision-making; the absence of restrictions in the agenda stimulates an excessive increase in the number of topics discussed, and their wide coverage and the fact that multilateral negotiating processes are stalling compel the players to conclude regional and restricted multilateral (with a limited number of participants) trade agreements.

Criticism of the WTO structure as a system of agreements boils down to several aspects: the bulkiness and imperfection of its legal framework and, as a result, decision-making is jeopardised amid numerous disagreements; the weakness of the system for resolving trade disputes, which includes a motley set of rules reflected in documents created at different points, including in the 1940–1950s, and a mechanism for resolving trade disputes; discrimination against least developed countries by the organisation's richer members in a variety of ways, including customs tariffs.

The most acute issues include **regulation of the status of developing countries and their preferences, as well as future areas of the Organisation's activities where the positions of developing and developed economies are diametrically opposed to each other.** The organisation must expand its jurisdiction. It is important to agree upon general rules in the areas that are not yet regulated by the WTO. It is time to start working through the agreements that take into account new forms of intellectual property protection, digital economy investment rules, rules for transferring digital technologies and access to digital infrastructure, e-commerce, the operation of small- and medium-sized businesses, trade in global added value chains, public procurement, as well as agreements related to environmental protection.

Due to the existing legal uncertainty of a number of the organisation's applicable provisions, there's a need for a gradual amendment and clarification of the WTO Rules. Thus, **abuses of exceptions to the rules for national security reasons** are becoming more frequent, and the United States is the leader in this department.

Until very recently, the WTO didn't have any interpretation of **Article 21 of the GATT** regarding security exceptions. Many member states strongly upheld the position that arbitrators are not authorised to make decisions on measures taken in the interests of national security. For that reason, the ruling by a panel of judges on **Case DS512** is of crucial importance. It entered into force in April 2019 and recognised the groundlessness of Kiev's claims to Moscow regarding restrictions on the transit of goods traveling from the territory of Ukraine to the territory of Russia. For the first time ever, the ruling by a panel of judges made Article 21 of the GATT somewhat clear. The arbitrators believe that this article is an integral part of the WTO Agreement and the rules and procedure for resolving disputes apply to it in full.

The findings of the panel of judges on this matter are particularly important in the context of proceedings against the United States initiated by a number of the WTO members, including Russia. Thus, the decision made in early 2019 supports Russia's arguments regarding Washington's duties on steel and aluminium.

It is important to improve the consistency of macroeconomic policies and to ensure coordination between the WTO members who are members of the **Eurasian Economic Union (EAEU)** regarding matters within its competence. Sending notifications regarding EAEU measures, exchanging information, as well as participating in dispute resolution and fulfilment of obligations assumed by the EAEU member states during their accession to the WTO, should be worked through jointly with the EAEU partners on the Eurasian Economic Commission platform.

The accession of new members will help promote and strengthen the WTO's universal nature. Russia attaches great importance to the successful and timely completion of the talks on **Belarus'** accession to the Organisation. It is the only EAEU member that hasn't joined the WTO, but it already complies with 95 percent of the organisation's rules. The accession of Belarus to the WTO would make it possible, in the future, to pose a question about the EAEU membership in the organisation, which, in turn, could create certain

preconditions for **substantive talks with the EU on creating a common economic space**. **Uzbekistan** expressed an interest in resuming the process of accession to the WTO, indicating its accession to the organisation as a priority in its National Strategy for 2017–2021.

Regional integration processes have a significant impact on modern global trade. The focus on interregional partnership and signing regional trade agreements is accounted for both by active relocation of production sites and the emergence of new areas not governed by the WTO rules. The system-wide impact of regional trade agreements on the multilateral trade system, their correlation to the WTO rules, and improving transparency mechanisms for regional economic integration processes need to be reviewed additionally. There's no unity regarding the assessment of regional trade agreements, and the political factor has a strong influence. So, when trying to create transoceanic partnerships (TPP or TTIP), the US approach made itself felt quite strongly, revealing Washington's plans to form alternative platforms to the WTO, regain US control over global trade and economically weaken and isolate China, Russia and other BRICS countries. Major regional agreements initiated by the United States are fraught with risks for third countries. At the same time, the WTO rules themselves do not impede the development of regional trade agreements. Regional trade agreements are designed not to replace, but to complement the multilateral system, and the consequences of their spread should be under special control. The uncoordinated process of developing rules in regional trade agreements creates additional risks for global rules.

The actual results of **Russia's WTO membership** did not fully meet the expectations. Our country has not gained access to advanced technology, the volume of direct investment has not increased, and it is difficult to obtain cheap financial loans. The decrease in Russian import duties upon accessing the WTO coupled with increased competition on the domestic market has shaken the **position of the Russian agricultural producers**. Only later, as a result of Moscow introducing countermeasures in response to Western sanctions imposed in connection with disagreements on Ukrainian crisis, the

situation in the agro-industrial complex began to improve.

Russia initially hoped to use its membership in the organisation to develop new rules of international trade, promote its national interests and effectively defend and uphold its position within the existing rules. Instead of stable and predictable market access conditions, we were faced with increased protectionism in its most aggressive form, namely, the sanctions, especially the ones applied extraterritorially and designed by our foreign partners to protect their companies and granting preferential treatment to these companies on the domestic market and the markets of third countries.

At the same time, ongoing **technological progress**, in which Russia will need to fight to become a major player, is a serious long-term challenge for the country.

Recognising the need to modernise the WTO, most WTO members remain staunch supporters of the multilateral trade system and are convinced that it is important to preserve the organisation's key role in ensuring free and fair trade. On January 1, 2020, the WTO will mark its 25<sup>th</sup> anniversary. The presence of problems does not devalue the need for the organisation as the only global regulator of trade rules. Where, if not here, could the West reiterate its commitment to the “rules-based order?”

## **Energy**

The development of new technologies in hydrocarbon production and use, energy saving and the dynamics of global prices, as well as the striving of countries and regions for energy self-sufficiency are rapidly changing the regional and international energy markets and national energy balances.

According to forecasts, **global energy consumption** will increase by nearly 60 percent in the next 30 years compared to the early 2000s.

**Russia** is an active member of international energy relations. It is the world's largest oil and gas condensate producer (12.4 percent) and second largest producer of natural gas after the United States (17 percent). Russia's energy sector accounts for 22.6 percent of national GDP, 38 percent of federal and regional revenues, as well as for 57 percent of Russia's exports.

Its **energy diplomacy** is helping to minimise the consequences of the challenges the country is facing within the global energy framework. The world's energy cooperation is increasingly becoming a subject of special diplomatic efforts.

The balance reached on the oil market thanks to the **OPEC+ oil production cuts agreement** is very fragile. The development and improvement of shale oil and gas production technology, primarily in the United States, where the capacity of liquefaction facilities that are under construction or have been contracted is estimated at some 90 billion cubic meters per year, can be accelerated in a positive price environment and consequently destabilise the energy market once again. Although the financial and investment stability of the shale industry is questionable, the recent changes in the energy balance and on regional markets due to the **shale revolution** are a challenge that is changing the energy map of the world and rules of the game. The United States is increasing its LNG exports. Washington's aggressive energy policy, the promotion of the US model of energy markets and the striving to encourage a global demand for US LNG are changing strategies and reshaping energy interaction, leading to the appearance of new and the ousting of old players. Energy policy has become a vital factor of the US economic and foreign policies: **Donald Trump's National Security Strategy (December 2017)** aims to make America a global energy power.

**The US shale revolution** has produced enough energy for domestic consumption and even for exports. Washington's dependence on foreign energy providers, primarily Middle Eastern countries, is rapidly weakening. Saudi Arabia is losing the status of America's strategic energy partner, which Russia and other players can use to their advantage.

The Russian energy diplomacy is focused on preventing the weakening of the country's competitive long-term positions in the traditional energy markets. Russian energy exporting companies take into account the new geostrategic and economic realities, plus the possibility of US LNG entering the European, South American and high-end Asia-Pacific markets, as well as the

appearance of the largest LNG exporter, Qatar, in Europe. Qatar, which accounts for 32 percent of the world's LNG export potential, as well as Australia (8.5 percent) are Russia's biggest rivals in the battle for **global LNG markets**. Moscow is working to increase its place on the global LNG market from 4.5 percent to 20 percent by 2035. Russia holds eighth place among the 17 LNG exporting countries. The Yamal LNG project in Russia's Arctic zone became operational in December 2017. Three other facilities with the aggregate capacity of 41.2 million tonnes (Arctic LNG 2, Baltic LNG and the upgraded Far Eastern LNG) are scheduled to come on stream by 2025.

At the same time, Russian LNG projects must not compete with Russian pipeline gas projects in international energy markets. On the contrary, energy exports should be diversified and their returns increased. Russian companies have responded to the shale challenge by gradually increasing their presence in the segment of short-term and spot transactions.

According to the **International Energy Agency**, Russia will keep its place as a leading player in the global energy market until 2035. However, it will increase attention to the Asian markets, expanding deliveries to China, Japan, South Korea and other Asia-Pacific countries from 6 percent to 22–25 percent, and consequently reducing its energy exports to Europe.

### **Sanctions: Unfair competition**

The competition between states in international economic affairs continues to grow rapidly; any methods are being exploited, including overt pressure and sanctions.

But the **United States** is the undisputed champion here. According to a study by the US-based Peterson Institute for International Economics (PIIE), from 1970 to 2014, there were 161 instances of economic sanctions recorded around the world, of which Washington was involved in 111, and in 54 cases, without any support from other countries. Currently, US sanctions apply to at least 20 countries.

Sanctions rarely lead to the achievement of aims. In 1970–1996, the United States attained officially declared goals in only 13 percent of cases when

economic restrictions were applied. Washington is increasingly working to drag other countries into the restrictions policy, primarily its NATO allies and EU member states.

The so-called extraterritorial restrictive measures play a special role in the sanctions practice. A good example of extraterritorial pressure is the US sanctions imposed on Iran, a policy pursued since 1979. The **Joint Comprehensive Plan of Action (JCPOA)** adopted by Iran and the six negotiators (Russia, the United States, France, the UK, China and Germany) in 2015 envisages a phasing out of the anti-Iranian sanctions. However, the US withdrawal from the JCPOA in May 2018 not only re-imposed American restrictions that had been abolished earlier, but also expanded and tightened the sanctions regime, primarily in the energy and financial spheres.

Washington is unilaterally reviewing political priorities and agreements, and reinforcing pressure on Tehran and its European partners; this policy makes us think about the possible consequences of a tough anti-Iranian option applied to Russia. The extraterritorial nature of the restrictions may primarily affect the Russian oil and gas sector.

The range of financial mechanisms used is also expanding, including **secondary sanctions** against banks: the United States is exercising control here, also through the US dollar's privileged status in the global monetary and financial system. The role of restrictions on technology transfer is increasing. The **2017 Countering America's Adversaries Through Sanctions Act, CAATSA**, confirmed the emerging trend. The CAATSA imposed additional restrictions on Iran, North Korea and Russia, also unleashing sanctions against their partners around the world.

The Russian Federation is not new to Western sanctions. Russia's economy has repeatedly experienced foreign sanction pressure: immediately after the October Revolution of 1917, the Entente countries imposed a trade and sea blockade on Russia; in 1925 the so-called gold blockade was imposed; in the 1930s, sanctions against the Soviet "dumping" policy were introduced. In 1949–1994, we had the COCOM directives, followed by the NATO embargo

in 1962, the Jackson-Vanik amendment to the Trade Act of 1974, then sanctions in response to the deployment of a limited contingent of Soviet troops in Afghanistan in 1980.

The current anti-Russia sanctions, initiated in March 2014 by the United States, supported by the European Union and several other countries, are regularly extended, and their scope is expanding. CAATSA brought the sanctions war up to a new level. The act directly affects the interests of third countries, primarily EU members, mostly in energy, defence industry and finance.

According to the **annual report by the Federation Council's Ad Hoc Commission on Protecting State Sovereignty and Preventing Interference in the Domestic Affairs of the Russian Federation** (February 2018), we should further expect a periodic tightening of sanctions under various pretexts. The crude **politicisation of sports**, the new "Kremlin lists," and the synchronized diplomatic demarches clearly fit into the general anti-Russia scenario.

In the foreseeable future, the extraterritorial expansion of national jurisdictions will be a typical element of the West's collective foreign economic policy. Sanctions will be tightened and will retain their importance as a means of fragmenting trade spaces, exerting political pressure and "conflict management." Russian diplomacy, including parliamentary diplomacy, should continue its policy to condemn the use of economic restrictions as a covert form of protectionism through bilateral contacts and at international associations and relevant organisations such as the UN, G20 and WTO.

### **Global development agenda**

At present, the development agenda, which primarily focuses on substantial economic growth accompanied by the reduction of disparities and income inequality, and an increase in employment, has become central to the policy of

all countries without exception. Indirect evidence of this trend is the institution of research centres analysing development issues at the leading universities of Western Europe, the United States and Japan, which no longer study only transitional societies as they did before; now they also research advanced industrial countries as well.

**The new economic development paradigm** is still to be formulated. For the time being, the following measures are being suggested: re-industrialisation of developed societies by returning production lines home (to the extent this is possible); programmes (with active participation of the state) for the training and retraining of qualified personnel; indicative incentives for specific industries with a view to enhancing their competitiveness in conditions of growing competition; strengthening of protectionism; and a progressive increase of funding for innovative industries that will ensure their growing application of R&D (by turning science into a productive force), etc.

Both developing and advanced countries face the **issue of work force employment**. According to UN experts, it will be necessary to create at least 600 million jobs in the near future, and not only in the developing countries. Stability of the political systems in the overwhelming majority of states and alleviation of ongoing and emerging local and regional conflicts directly depend on the resolution of a potential employment crisis. **The fourth technological revolution** with its precursors of robotisation and artificial intelligence can reduce the labour force by at least 75 million jobs in the near future (primarily in the golden billion countries).

The introduction of the **universal subsistence level** is becoming a topical issue. The movement of advanced economies along this trajectory may escalate internal tensions in Western societies and further consolidate radical and populist forces. Closely interwoven with the ongoing (and a possible escalating) crises in global politics, the new reality may become a driver of deep **change in the party and political systems** of the world economic leaders with a potential intensification of both chaotic as well as reactive and

authoritarian trends. **The United States and Great Britain** have a certain advantage (which is also a competitive advantage) among Western countries in this respect. In those countries, the leading political forces manage to control the transformation processes: the Republican Party took charge of the Trump revolution while the Tories took Brexit under their wing.

Since development problems come to the fore in all countries, unique conditions are created for uniting the international community on this basis, all the more so because it is obvious that in the ongoing globalisation development problems of some countries spill over to other countries with refugee flows, the threat of terrorism, epidemics, environmental degradation and climate change, thereby exacerbating their own development issues. Separate existence of states and groups of states has become impossible no matter how hard one may try to reverse **globalisation**. The new global development agenda calls for overcoming the old agenda with its reliance on force: it took shape in the past era and was prompted by the logic of the entire development of the human race (slavery, colonialism, imperialism, nationalism and ideological confrontation).

It is necessary to take a fresh look at the condition and goals of international relations, including **international development assistance (IDA)**, which would make it possible to work out genuinely collective and sustainable solutions to the existing and future problems and challenges.

Environmental degradation is becoming a bigger problem than ever before. It requires an accelerated development of the **green economy**, including the production of **organic products**. These products must meet the principles of biological diversity, sustainable development, maintenance of soil fertility and use of renewable resources. It is time for the Food and Agriculture Organisation to adopt a “green line” for food products that are grown using pure fertiliser with the low content of heavy metals and minimum of pesticides. Russia and West European countries have already followed this road as regards the fertiliser.

**Russia** possesses an enormous potential of global significance. It has fresh water reserves, farmlands and forests. Another asset that can be included here

is some elements of our culture, such as openness, inclusivity and pluralism. This gives us an advantage in global diplomacy, which is expanding with the narrowing of power politics. Russia played a reconciliatory and **moderating role** in European and world affairs more than once (it is enough to recall decolonisation). This role is again in demand, this time in **sustainable development**, the crisis of which is evidenced by such an ugly phenomenon as the sudden popularity of Swedish schoolgirl Greta Thunberg. This case also illustrates the complete failure of the Western elites, which failed to take any action in this direction throughout the entire unipolar period.

Successful **domestic development**, which has always been **the ultimate foreign policy reserve**, is acquiring utmost importance and at the same time an inalienable international dimension: **only the development of all countries can be an effective guarantee for the development of every participant**. Everyone will have to understand this. This is the kind of abyss that you can avoid gazing into but it will still gaze back at you. That is probably the most valuable lesson from the 30 post-Cold War years.

*Moscow, October 14, 2019*