

Review of the 10th World Economy Annual Conference, The World Economy in the Era of Turbulence

On 28-29 November 2022, the Department of World Economy held the 10th World Economy Annual Conference, The World Economy in the Era of Turbulence, which was focused on the impact of new global challenges on foreign trade, international finance, and the energy and resources sector. The conference was attended by representatives of universities and research centers in Russia, Turkey, Poland, Kazakhstan, and Armenia. The participants presented more than 25 reports and the debates were lively. A hybrid conference format combining offline and online participation, as well as simultaneous translation into English, made the conference as accessible as possible to all interested parties.

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The conference was opened by Victoria Panova, the Vice Rector of the National Research University Higher School of Economics (NRU HSE). In her opening statement, Panova noted the unprecedented nature of the challenges faced by the international community, resulting, in her view, in a fundamental restructuring of global value chains, energy trade flows, and the international system of investment cooperation, and the need for a new economic order. Participants were encouraged to engage in discussions that could lead to new approaches and rules for international economic interaction that would take into account the interests of all countries rather than individual groups.

The conference programme consisted of **four sessions**:

- On the Brink of Recession: What Is the Scale of the Possible Crisis?
- Special session: Book presentation, *The World Economy in a Period of Big Shocks: Key Ideas*
- Sanctions Forever? How Russia and the World Economy Will Live Without Free Trade
- Joint session with the Laboratory of Climate Change Economics of NRU HSE: Energy Typhoon: How will the International Energy Landscape Change in the Long Term?

The first session was opened by Professor Leonid Grigoryev, the founder of the conference and the scientific head of the School of World Economy, with an introductory report on the topic “The World Economy Transcends Rationality.” Professor Grigoryev noted that the scale of the global governance crisis of 2022 is much higher in terms of its destructive impact on the development of mankind and

society in all fields than any positive outcome of the decisions and measures taken. He said that the logic of the trends and cyclical processes taking place in 2020-2022 has been broken, and that it has become almost impossible to refer to previous experience in the search for solutions. It is vital to create a mechanism to address global problems, independent of any cycles, although its development would require joint agreements. At the same time, according to the speaker, the manifestations of crisis of 2022 are not yet creating a full-scale economic crisis, even though their consequences for the socio-political environment may be very serious.

The main thesis of the report by Professor Marek Dabrowski on the topic “Global economy in the early 2020s: the main challenges and ‘counter-flows’” was that the problems that are now being observed certainly have an impact, but the global economy as a whole is driven by the actions of countries and their politicians over the past 15 years. Referring to the main trends— declining economic growth, global imbalances in labor supply and demand, decreasing productivity growth and world trade, inflation and more—the expert noted the reasons for each of these, though added that they appeared long before today’s short-term shocks. As a result, Professor Dabrowski argued, the international economy may expect further stagnation, crisis in the public debt market, increased protectionism, “green” transformation, uncertainty regarding growth in productivity, and a number of other challenges.

In his talk, expert Sergei Shatalov focused on the impact of the crisis on emerging markets. Key indicators of the vulnerability of many large developing countries to external shocks have negative outlooks. In India, Brazil, Turkey, and Egypt, both balance-of-payments and budget deficits are high; in the absence of economic policy adjustments, they can be expected to widen further, being followed by increased debt difficulties. Fiscal deficits in China, South Africa, and Egypt are projected to remain high. Shatalov summarized his position on the impact of the current crisis on developing countries in three points: (1) to date, only a few major developing countries have taken proactive measures to counter the crisis; many other countries in this group are facing a real risk of a new debt crisis; (2) net exporters of energy sources are comfortable so far, but reduced demand due to the crisis may cause problems in some of these countries as well; (3) China is unlikely to be the main driver of global economy growth again, as it was after the global financial crisis of 2008–2009.

The final reports of the first session were mostly focused on a closer examination of the causes of the expected recession and its impact on selected groups of countries and regions. The report of Marcel Salikhov, President of the Institute for Energy and Finance Foundation, was centered on the growing risks of recession-inflation, rising prices of energy sources, and tightening monetary policy. The phenomenon of the current situation is that countries with very high inflation are those that carry out an unconventional monetary policy. The specific feature of the current energy crisis is the synchronized rise in prices in different markets (coal, gas, electricity), not only in the oil market, which creates a huge burden for countries. However, the world economy is adapting, and moreover, governments,

particularly in Europe, are using different economic support measures, thereby final prices are rising less rapidly. Noting a number of other positive aspects, the expert concluded that there were no preconditions for a deep recession and that it might not exist in some countries and regions of the world.

Maryam Voskanyan, Head of the Department of Economics and Finance at the Russian-Armenian University, discussed the issue of ineffective macroeconomic regulation using the example of Armenia. Constrained macroeconomic policies and the maintenance of macroeconomic stability have proven to be effective in economically developed countries, but in small developing economies they have slowed growth in the long term. She identified the peculiarities of Armenia's fiscal policy: a high tax burden, frequent changes in tax legislation, inefficient administration leading to an increase in the share of the shadow economy, and inefficient budget spending. The country's monetary policy, namely the inflation-targeting regime, also serves to constrain economic growth. In conclusion, the expert noted that the current period of development of the world economy creates opportunities for small developing countries to develop new and more effective approaches to macroeconomic management and escape the "poverty trap."

The report by Anastasia Podrugina, Associate Professor of the School of World Economy at the NRU HSE, focused on the world economy's transition to a regime of high inflation—characteristics of the behavior of inflation in this regime as well as the criteria of the transition. The report also highlighted the similarities and differences between the global economy in 2022 and the crisis of the 1970s. In 2022, the world economy shifted to a regime of high inflation—a regime in which prices in different industries are correlated and therefore the inertia of inflation is high. In the new environment, the probability of a soft landing is low, and central banks will have to choose to fight either inflation or recession, with the risk of stagflation greater for the EU than for the U.S.

As part of the **second, special session** of the conference, a presentation of the monograph "World Economy in a Period of Big Shocks" prepared on the initiative of the School of World Economy, and representing the results of research work of its team of authors during 2020–2022, was given. After the opening speech by RAS Academician Natalya Ivanova, who noted the fundamental nature of the book and the originality of its structure, built not on a regional approach but on key areas of concern, the authors of the leading sections, Igor Makarov, Alexander Kurdin, Oksana Sinyavskaya, Vasily Kashin, and Leonid Grigoryev, presented their studies. They noted that the events taking place now are fundamentally changing the world economy. Although they are not fully reflected in the monograph, this in no way lessens its significance, because it describes the fundamental trends that were either born or strengthened in the period after the Great Recession of 2008–2009. These include a slowdown in global investment activity, a deceleration in the development of the BRICS countries, a shift in focus from the problems of economic growth to the problems of economic development, rising inequality especially within countries, digitalization of the world economy, energy transition and green transformation, etc. Most of these trends intensified during the COVID-19

pandemic. The upheavals of recent years can be understood only through the imbalances and contradictions of the previous decade.

The **third session**, on the widely discussed issue of sanctions, which are clearly painful for the Russian economy, was opened by Alexander Knobel, Director of the Institute of World Economics and Finance of the Russian Foreign Trade Academy. The moderator stressed the high urgency of this issue, noted the impossibility of a complete absence of free trade and isolation of Russia from the world economy, and pointed to the need to take into account the time frame when discussing whether sanctions are permanent.

The opening report of the session was made by Ivan Timofeev, Director General at the Russian International Affairs Council. Timofeev noted the unambiguous character of the sanctions and their unprecedented nature. He also discussed the blurring of the line between the concepts of “sanctions” and “trade wars” in 2020–2022. He agreed that the Russian case was unusual in terms of the number, quality, and speed of the imposition of sanctions, but noted, in terms of effects and consequences, that an analysis of the current sanctions could be based on the findings of the literature on past cases. First, sanctions in the vast majority of cases do not lead to changes in policy, as the situation in Russia confirms. Second, the country’s economy has remained stable and generally under control, as can be expected from previous international experience i.e. the economic situation in countries under sanctions may deteriorate without them actually collapsing. Third, the behavior of “black knights,” or friendly countries and their companies, is not unambiguous. In conclusion, the speaker highlighted the very slow and asymmetrical application of Russia’s retaliatory sanctions.

The reports of the third session were devoted to a great variety of issues concerning the impact of sanctions on specific aspects of the Russian and world economies. Alexander Zaytsev, Associate Professor of the School of World Economy, discussed the current dynamics of world trade, adaptation of global value chains in response to the challenges of COVID-19, the logistics crisis and growing geopolitical tensions, as well as import substitution policies as a common response to the disruption of global supply chains.

Ivan Deseatnicov, Assistant Professor of the Faculty of World Economy and International Affairs, presented a study on the impact of export controls aimed at restricting U.S. technology exports to China and Taiwan’s trade with mainland China. Results of calculations showed that in the period of 2017–2021 there was no negative effect of export restrictions on Taiwan’s trade with mainland China. The researcher assumed that the profitability of the market outweighs the increase in the cost of obtaining licenses under export restrictions.

Rakhim Oshakbayev, director of the TALAP Center of Applied Research, considered the impact of anti-Russian sanctions on Kazakhstan and the Eurasian Economic Union (EAEU) in general. First of all, the expert noted the limited rationality of sanctions and the ambiguity of their negative effect. He further stressed the absence of restrictions on Russian companies to conduct operations on the territory of Kazakhstan, which was provided by the support of the authorities

of the country and their dialogue with the business, primarily the financial sector. The legal foundations of the EAEU have also demonstrated their operability and in many ways have meant the negative impact of sanctions has been lessened, not only on Russia, but also on the Eurasian space as a whole.

A report by Alexander Kurdin, Deputy Dean at the Faculty, and Karina Ionkina, researcher at the Department of Competitive and Industrial Policy at the Faculty of Economics, Lomonosov Moscow State University, looked at import substitution and its economic consequences. Highlighting two key arguments for import substitution policy, such as national security, and positive externalities, experts presented a number of international cases. Remarking on the example of the Russian railcar building industry, the speakers offered two key conclusions: support should be provided to a wide range of manufacturers in order to eliminate the monopoly situation and not to support industries that are fully dependent on individual imported components, since in this case liberalization may be more appropriate.

Director of the Institute of Scientific Information on Social Sciences of the Russian Academy of Sciences Alexey Kuznetsov gave a talk on Russian direct foreign investments under sanctions pressure, focusing on the policy of the European Union in this matter. As a result of the EU's actions on the assets of Russian companies, the question arises as to what the EU will look like in terms of investment attractiveness in a few years' time in the eyes of the rest of the world. According to the speaker, the EU's costs of attracting new investments are very high and have not yet been fully assessed by Europeans.

The final report of the third session, presented by Igor Makarov, Head of the School of World Economy, focused on answering the question: why, despite a general consensus on the benefits of free trade reached by economists, is protectionism still prevalent in the world? The speaker highlighted four types of protectionism, such as "lobbyist protectionism," "industrialiser protectionism," "populist protectionism," and "geostrategist protectionism," and stressed that in recent years there are increasing reasons to talk about the fifth type of protectionism, "benevolent protectionism," an example of which is carbon border regulation in the EU.

The **closing session** of the conference, which looked at the problems of world energy and the "green" transformation of the world economy, was opened with a report by Makarov. He expressed the view that the current geopolitical crisis, accompanied by the increase in energy prices, the disruption of energy cooperation between Russia and the EU, and an increase in the overall level of political confrontation, is leading to the loss of at least several years in the fight against climate change. The report identifies four scenarios for the development of the climate agenda up to 2030. These are shaped depending on two conditions: the success or failure of the world economy in overcoming the economic crisis and the intensification or weakening of geopolitical confrontation in the world. Only one scenario, in which the crisis would be resolved and international cooperation restored, envisages a "green reboot," meaning an acceleration of actions aimed at

reducing greenhouse gas emissions to the level required to keep the temperature increase within 2.5 degrees above the pre-industrial period (with the possibility of staying within 2 degrees with further acceleration of the development of climate policy after 2030). In none of the scenarios, however, would it be possible to keep the temperature increase within 1.5 degrees, which is the top temperature target of the Paris Agreement.

Vyacheslav Kulagin, Head of the Department of World and Russian Energy Sector Studies of the Energy Research Institute of the Russian Academy of Sciences, listed short- and medium-term trends in the world's energy markets, identifying their impact on individual countries, regions, and market players in his report, "Transformation of Energy Markets in the New Realities." The speaker explained the impact of the 2022 crisis on greenhouse gas emissions and the achievement of the objectives of the Paris Agreement and presented two global scenarios of economic and energy development: a "geopolitical disconnect" and "mutually agreed development." According to the expert, the world has embarked on the path of the first scenario, but this could change if countries realize that in order to achieve national interests, cooperation is a better solution.

Sergey Kapitonov, analyst at the Project Center for Energy Transition and ESG at Skoltech, focused on Russian gas exports and their medium- and long-term prospects. The expert noted the fall in the volume of gas supplies from Russia to Europe to the level of the 1970s with the result that a process of de-industrialization of a number of European industries can be observed. However, in future, European countries may completely abandon Russian energy. In this situation, Russia has several options to compensate for its losses: developing the domestic market, the diversion of gas supplies to other countries, and developing production of high value-added products with a view to a potential transition to a "greener" export. In conclusion, the speaker expressed the hope that cooperation between Russia and Europe was not yet finished and could continue in a new direction.

In his report "Energy of the World: Emotions and Realities," Leonid Grigoryev noted that the energy sector has become a special complex of problems and trends, which encompasses not only an important sector of the world economy, but also fields affecting the planet's climate, technological progress, and geopolitics. Under the Sustainable Development Goals, the energy transition has overshadowed other goals. Progress in the energy sector and the transition to "green energy" in the long term seem, in all likelihood, essential. In the Professor's opinion, the question is when new technologies for mass commercial applications will be ready, and how the processes of global coordination of financing, technology production and transition will be organized. While the problems have worsened, GDP growth has generated both increased energy demand and greenhouse gas emissions.

In his report "Climate and Changes in Global Priorities," Sergey Bobylev, Head of the Department of Economics of Environmental Management at Lomonosov Moscow State University, drew the attention of conference participants to the fact that climate risks over the past three years are recognized as the most important for mankind. However, the achievement of carbon neutrality and the transformation

of the environmental determinant of economic development into the dominant one requires radical economic transformation and will lead to structural and technological changes, reforms of traditional sectors, and regulatory changes. The expert focused particularly on consumer behavior, specifically the different impact of consumption in developed and developing countries on the global economy and the complexities of changing traditional patterns of consumption.

The critical role of raw materials in the “green” transformation was the key theme of the report by Sedat Alatas, research fellow at the Laboratory for the Economics of Climate Change at the NRU HSE. Explaining the increased dependence of mankind on the increasing diversity and volume of production of a number of materials (lithium, cobalt, tungsten, gallium, copper, etc.), the speaker pointed to their critical role in the transition from fossil fuels to renewable energy sources. According to recent estimates from international institutions, a “green” transformation will lead to a continuous increase in demand for these materials. However, their supply is fraught with a number of risks and it may not be possible to meet demand quickly enough, which may slow down the “green” transition.

The final report of the session was presented by Alexandra Morozkina, Deputy Dean for Research at the Faculty of World Economy and International Affairs at HSE, on the assessment of the impact of building hydroelectric power stations on ecosystem services. Morozkina noted that building of hydropower plants impacts ecosystems at all stages of the project, from pollution during the construction phase to loss of biodiversity due to landscape change (land inundation, deforestation). The net effect of the construction of 44 hydropower plants in Russia is negative, even if one takes into account the positive effect of the reduction in emissions due to the replacement of thermal power plants.

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The questions raised by the speakers on the fundamental processes taking place in the contemporary world economy gave rise to a broad and lively debate. The conference did not provide definitive answers to most of these questions, but it did contribute to their understanding and to the examination of the most controversial and contradictory trends. The organizers hope that the 10th Annual Conference on the World Economy “The World Economy in the Era of Turbulence” will promote further research, professional networking, and the exchange of knowledge and opinions in the field of the world economy.

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