

Overview of the Roundtable “Prospects for the Development of the World Economy in the Context of Global Economic Fragmentation”

On April 25, 2024, the School of World Economy of the HSE University held a roundtable discussion on “Prospects for the Development of the World Economy in the Context of Global Economic Fragmentation.” The participants discussed the main trends in the development of the world economy at the current stage, considered the factors of ongoing fragmentation, assessed the prospects and problems of economic growth in the world as a whole and in individual countries and regions, and identified a number of key challenges facing Russia in this context.

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The roundtable was inaugurated by **Igor Makarov**, head of the School of World Economy, who underscored the consensus among experts that the global economy is entering a new phase, which can be defined as fragmentation, or the division of the world economy into a number of distinct blocs. The precise delineation of these blocks is not yet clear, but it is evident that one comprises Russia, China, and a number of allied countries, while the other includes Western countries. The phenomenon of fragmentation is evidenced by a reduction in international trade and foreign direct investment (FDI) between the blocs, while growth within the blocs occurs, without the prospect of improvement.

The objective of the roundtable was to deliberate on the prospective trajectory of the global economy within the emerging context, to see if the fragmentation exists and has long-term sustainability, and, if substantiated, to delineate the potential ramifications for Russia and the global economy at large. A significant issue for the experts to address was the manner in which countries’ foreign economic strategies evolve when security considerations assume precedence over economic efficiency factors. This raises the question of how this shift should be reflected in Russia’s foreign economic strategy.

The first speaker was **Alexey Kuznetsov**, a corresponding member of the Russian Academy of Sciences and the director of the Institute of Scientific Information for Social Sciences of the Russian Academy of Sciences. He presented a report on the negative impact of the attempt to exclude Russia from the world economy on the prospects of global economic development. He began by noting that it is erroneous to consider Russia as a country with no significant weight in the global economy. The events of 2022–2023 demonstrated otherwise. In 2023, Russia was ranked 11th in the world in terms of gross domestic product (GDP) and 5th in terms of GDP at PPP. In this regard,

the expert proceeded to elaborate on three aspects of the global economy: (1) the BRICS enlargement and its importance for global regulation, (2) foreign direct investment, and (3) the restructuring of Russia's foreign trade.

The GDP of the ten countries comprising the BRICS group, calculated in market prices, has already surpassed that of the United States and is currently 1.6 times lower than the combined GDP of the G7 countries. Nevertheless, of the BRICS countries, only Russia is currently engaged in active discourse concerning potential modifications to global regulatory instruments. The other countries in the association, despite their common interest in this issue, are reluctant to assume risks, which raises the question of what tools and concrete actions can be taken by Russia. Furthermore, the rapporteur noted that the fragmentation observed today represents an intensification of regionalization processes that commenced during the Coronacrisis and will persist. Additionally, he posited that these processes afford Russia the opportunity to construct novel instruments of involvement in the global economy, citing the International North-South Transportation Corridor as an example.

With regard to foreign direct investment, the expert highlighted that, contrary to expectations, Russia's exclusion from international capital flows has had a significant impact on global processes, including a notable deterioration in the investment climate in the United States and the European Union. There has been a notable decline in the inflow of FDI into Western countries. As a result, Chinese, Arab, and other investors are divesting, creating new opportunities for Russia in the global arena.

In conclusion, the speaker reviewed the evolving geography of Russia's foreign trade, noting that not all prominent non-Western countries have strengthened economic ties with Russia. However, the first three—China, India, and Turkey—are of interest. Russia's foreign trade is not solely concentrated on China. Russia is a significant trading partner for all three countries. As a result of its membership in BRICS and the successful navigation of the initial two years of sanctions, Russia has a promising outlook for continued development. It is now imperative to capitalize on these opportunities.

In his report, associate professor of the School of World Economy **Alexander Zaytsev** undertook a review of trends illustrating the fragmentation of the world economy. The speaker initially observed that the last two to three years have witnessed an uptick in fragmentation, although this phenomenon has been in the making for some time, with the advent of sanctions against Russia in 2014 and the emergence of trade confrontations and technological competitions between the United States and China. The influence of these factors has grown significantly since 2023. There has been an increase in the number of sanctions and trade restrictions imposed, as well as a notable rise in pressure on and heightened scrutiny of FDI. As a result, there has been a political regionalization of trade and FDI and financial fragmentation.

The speaker highlighted that the fragmentation of international trade is occurring concurrently with a decline in trade turnover, particularly in goods, and expressed skepticism about the IMF's projected trade recovery in the coming years. In 2022–2023 substantial structural shifts in global trade happened. Accordingly, the UNCTAD has indicated that the proportion of trading partners within geopolitically proximate blocs increased by about 6% during the 2023 period relative to the period up to February 2022.

Conversely, the proportion of trading partners within geopolitically disparate blocs decreased by 5-6% during the same period. The expert provided examples of increased trade connectivity, citing the growth of China's share in Russia's trade turnover by 7 p.p. and Brazil's by 3 p.p. The most significant decline in trade connectivity was observed between Russia and the EU, as well as between China and the United States.

In the financial sphere, the phenomenon of fragmentation is evidenced by the declining share of the dollar and the euro in the world's gold and foreign exchange reserves. Consequently, the proportion of the dollar has diminished from approximately 70% in 2000 to approximately 58% in the second quarter of 2023. Conversely, the role of alternative methods of settlement has increased, with the share of the yuan in international settlements approximately doubling over the past two to three years.

In conclusion, Zaytsev posited that the global economy is currently undergoing a period of restructuring and long-term decoupling in critical technologies and goods. However, once this process has reached its conclusion, the trend of deglobalization may potentially reverse for less sensitive goods, such as consumer electronics. Those hub countries that occupy a neutral position between the West and Russia / China—Turkey, the UAE, and to a lesser extent Vietnam—will benefit as a result of these processes. Nevertheless, developing countries as a whole will suffer as a result of the return of production to developed countries, the reduction of trade, investment, employment, and inflation associated with these processes. Russia would be well advised to pursue active engagement with countries that serve as global hubs, to invest in countries with which it enjoys a positive relationship, and to reinforce its financial infrastructure.

Andrey Gnidchenko, a senior researcher at the Institute of Economic Forecasting of the Russian Academy of Sciences, presented a report on "Shifting Trade Ties of the United States and China with Their Partner Countries: Changes over the Five Years of Turbulence." The expert presented a view of world trade from the perspective of the two largest economies in the world, the United States and China, as they pass through three stages: (1) the hot phase of the trade war from July 2018 to January 2020; (2) the beginning of the COVID-19 pandemic and active post-COVID trade growth; (3) since February 2022, when the special military operation changed the positioning of Russia in the system of world trade, as well as the relationship between China and the United States.

During the initial stage, the United States' trade balance remained largely unaltered. In formal terms, the objective of the US economy to reduce reliance on imports from China was met. However, the overall trade deficit remained unchanged due to an increase in imports from other countries, particularly from the ASEAN countries. Europe derived some benefit from its ability to align with the revised US import framework. The speaker devoted particular attention to the phenomenon of the reexport of Chinese products to the United States, which primarily occurred through the ASEAN countries, particularly Vietnam.

In the second stage, during the global pandemic, world trade experienced a slight decline. However, it subsequently demonstrated robust growth, both in imports from numerous countries, including the United States, and in exports from China. In 2019, China's share of global merchandise exports was 14 %. During the second stage, during the post-COVID economic recovery, China was able to secure additional market positions,

leading to an increase in its global export share to 16% in 2021. The speaker observed that it is premature to suggest that China is losing its position in the global market, particularly in the context of trade in goods. With regard to the United States, imports from China have increased in the context of post-COVID recovery to a level approaching that of the pre-trade war period. Concurrently, imports from other regions—namely, North America, Europe, and ASEAN—have increased significantly to meet the additional domestic demand.

The third stage was distinguished by rapid geopolitical and structural changes on the global scale. Imports from China to the United States experienced a notable decline, yet the overall US trade deficit reached a historic high due to an increase in imports from other regions. Gnidchenko highlighted the distinctive circumstances of Europe, where the US trade deficit diminished due to the expansion of US exports to the region. With the commencement of the special military operation, there was a reversal in Chinese exports to Europe, resulting in a reduction in China's trade deficit with Europe. It should be noted that China maintained a high level of trade engagement with India throughout the second stage, and this engagement has not diminished in the third stage. Consequently, India persists in its active engagement with both China and the United States.

The speaker devoted a section of the presentation to an analysis of the role of the countries comprising the Chip 4 alliance. In addition to the United States, this group includes US-friendly Japan, South Korea, and Taiwan, which are major suppliers of semiconductors. During the second stage, imports from these countries to the United States increased significantly, a trend that continued during the third stage. Furthermore, when examining these countries from China's perspective, it is evident that during the second stage, China imported their products at a considerable rate. However, during the third stage, there was a notable reduction in imports from Japan, South Korea, and Taiwan. In other words, there has been a reorientation of the alliance countries' focus from the Chinese market to the American market.

In conclusion, the speaker presented a series of conclusions and identified the key drivers of world trade in the coming years. These include:

(1) China, despite experiencing a slowdown and facing uncertain prospects, will remain a primary player in global trade.

(2) The ASEAN countries are an important player in global trade due to their unique position and growing cooperation with both the United States and China.

(3) The ongoing integration of North America, the reindustrialization of the region, and the relocation of high-tech industries to the area will continue to be a significant driving force.

(4) Following a period of restructuring, Russia may emerge as an active player on the global stage, assuming a prominent role in the emerging processes.

(5) India, as a sizable economy in terms of population, also possesses the requisite conditions to assume an active role, albeit in a coalition with other countries, such as those in ASEAN.

Following the three presentations, the roundtable participants engaged in a more in-depth discussion of several key issues. These included the BRICS countries' interest in changes to the global economic regulatory system and the necessary actions Russia

might take in this regard; the continuing deglobalization debate in the context of the growing share of services in GDP and the expansion of digital platforms; the existence of fragmentation in certain critical global economic sectors; the feasibility of using GDP to assess the economic potential of Russia and the existence of alternative indicators for getting a more objective assessment.

At the conclusion of the discussion, **Leonid Grigoryev**, academic supervisor of the School of World Economy, presented his perspective on the ongoing processes, commencing his remarks by underscoring the challenges and prospects for the functioning of the BRICS countries. In consideration of the global economy, he drew attention to the fact that, on the one hand, the transition to a new regime of slower economic growth is being realized, primarily in China and Europe. It is evident that structural problems and the necessity for increased financial investment in technological development and the implementation of the green agenda are present. Conversely, however, the United States is exerting greater control over global financial flows, a trend that is likely to intensify. In this regard, the expert identifies a challenge in the implementation of catching-up and “overtaking” development strategies by developing countries. In the near future, the world may be confronted with a multitude of intricate processes, including a proliferation of conflicts in the trade and economic sphere and a fierce competition for financial control.

The final report on “Adaptation to the Fragmentation of the World Economy: Russia’s Tasks in the Foreign Economic Track” was delivered by **Alexander Knobel**, head of the International Laboratory of International Trade Studies of the Russian Presidential Academy of National Economy and Public Administration. At the outset of his presentation, the expert highlighted the relatively modest projections for global economic growth, which are anticipated to reach 2.5% to 3% annually. It is anticipated that global trade will experience a modest increase, with the expansion of trade in services playing a pivotal role in this growth. The CIS region (primarily due to Russia) is in a distinctive position, with exports anticipated to expand while imports are projected to contract, diverging from the trends observed in other global regions.

The primary focus of the report was a comprehensive analysis of the global context in which Russia operates, emphasizing that it is not solely determined by sanctions pressure. It is important to consider the rise of protectionism in the context of the pursuit of multilateral liberalization, the emergence of new regulatory frameworks for trade negotiations, and the presence of contradictions between key countries. Additionally, the reconfiguration of global value chains and networks of cooperation warrant attention. These developments give rise to the need for Russia to reorient trade flows, to ensure technological development in light of ongoing changes, and to reconfigure transportation and logistics. The speaker also addressed the topic of the stability of hard currency payments for Russian exports, emphasizing the favorable resolution of this issue in recent quarters. Additionally, the speaker discussed the topic of critical imports that are crucial for the advancement of specific economic sectors. The speaker posited that should the Russian economy continue to develop in its current trajectory, the macroeconomic situation will remain stable, with a positive current account and trade balance, and Russia will have no problems in its interaction with the outside world. From the standpoint of

technological advancement, it is imperative to either identify a substitute for certain critical supplies from unfriendly or even neutral countries or transition to supplies from the domestic market.

The roundtable concluded with a discussion among the participants regarding the most significant issues that will shape the future of the global economy. These included the potential for economic growth to decelerate and the continued regionalization, as well as the interests and instruments of countries with respect to the development of intrabloc trade. Additionally, the discussion addressed the implications of violations of the fundamental principles of international trade.

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