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**"Reimagining the Global Order:
Towards an Alternative Financial
and Trade Architecture?"**

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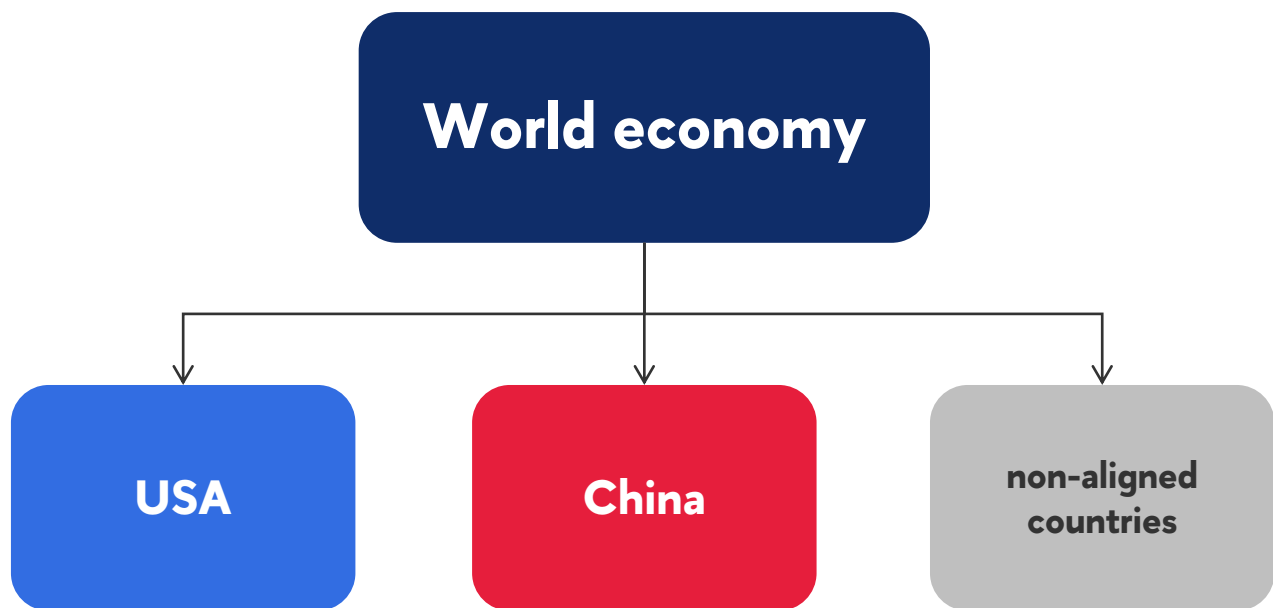
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- The world economy is going through a period of geopolitical fragmentation characterized by a division into three sectors: the US, China and the non-aligned countries. Since the beginning of 2022, there has been a significant reduction (by 12% in trade and 20% in FDI) between these sectors, and this trend is not limited to the influence of the US and China but is more general.



- Despite global fragmentation, the share of developing countries in world trade is growing. South-South trade has shown steady growth, increasing mostly 2 times from \$2.3 trillion in 2007 to \$5.6 trillion in 2023, indicating stronger economic ties among developing countries.
- In 2024, pre-existing trade imbalances were restored: the US deficit and China's surplus increased, while the EU has moved into surplus. The growth of the US deficit with China and the EU surplus with China carries risks of new trade wars (tariffs, restrictions) and the redistribution of investments.
- The "nearshoring" and "friendshoring" trends, which became popular in 2022–2023, have weakened in 2024. Companies are striving to diversify supplies rather than concentrate them, expanding their network of partners and reducing dependence on specific regions or political allies.

- A major factor affecting global trade has been the sharp rise in transportation prices caused by conflicts in the Middle East and problems in the Suez and Panama Canals. The Shanghai Containerized Freight Index doubled in mid-2024 compared to the end of 2023, but although it did not reach the records of 2021.
- In response to logistical challenges, the demand for alternative transportation routes is growing. Terminals on the Northern Sea Route are being well-developed. Also, the Iranian and Trans-Caspian corridors are being activated, and "green corridors" for accelerated delivery of critical cargoes are being launched for accelerated delivery of critical goods.
- The role of "connector countries" is growing — smaller economies are beginning to play a more significant role. Countries such as Malaysia, Vietnam and India have strengthened trade ties with certain partners, while others, including Russia, Australia and the EU, are reducing their reliance on traditional markets.
- Thus, in the context of geopolitical turbulence and fragmentation of global markets, there is a transformation in the strategies of transnational companies (TNCs) and an increased need to create resilient regional trade flows, which forms a new challenge and opportunities for cooperation among countries disengaged from Western markets.



- The main trends and tendencies that can be called common to the countries gathered at the session today are:

1. TNCs' strategic embeddedness (tailoring to local markets) as an adaptation to new realities.

Transnational companies, while maintaining global ties, are actively adapting to national markets, seeking deeper integration into the local economy. This can be considered as a strategy to ensure stable demand in an environment of uncertainty and political instability. In the long term, this may lead to a change in the perception of TNCs, which are beginning to be perceived not only as global players, but also as "quasi-national" companies, interested in development of local economies. The need for regulators and national governments in this regard is to adapt policies to work with such TNCs, encourage their contribution to local development, while maintaining control over strategic sectors so that the companies act as convenient communicators in foreign markets.

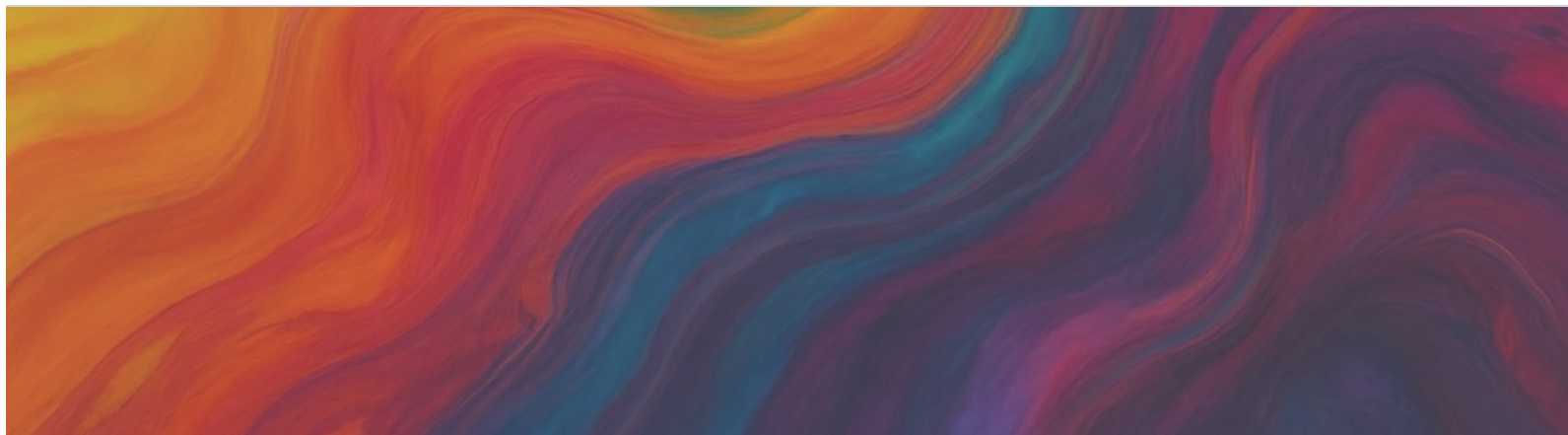
2. Scale deficits and the "golden nail" problem.

The fragmentation of the global market (formation of several smaller trade blocs) leads to a reduction in the potential volume of sales for countries subject to sanctions or restrictions. Reducing the scale of production and sales entails an increase in unit costs, especially in technologically complex industries. Economies of scale stop working, making many technologies economically impractical. This creates the need to find new solutions to ensure competitiveness and sustainable development.

3. Resilient (sustainable) trade turnover as a response to challenges.

In the current situation, countries that have been alienated from traditional Western markets are forced to create their own resilient turnovers. This implies the development of domestic production, diversification of export markets, deepening regional integration and the creation of alternative logistics chains. A resilient trade turnover should be based on the principles of parity cooperation, technological independence and sustainable development. At the same time, it is important not to oppose ourselves to the West, but to act in conditions that are beneficial here and now — all other things being equal, restrictive and prohibitive measures will not be able to bring economic balance in the cross-border sense.

- The risks associated with growing global trade imbalances should not be ignored. It is necessary to actively participate in international organizations to find solutions aimed at reducing these imbalances and preventing trade wars. At the same time, it is necessary to develop the domestic market and implement import substitution programs to reduce dependence on external factors.
- One should consider the active protectionist policy of the US, which strives for monocentricity. The US protectionist measures are an attempt to create a monocentric world trade system based on bilateral arrangements with selected partners (instead of the existing multilateral system of arrangements and relationships based primarily on WTO mechanisms).
- In practice, it indicates a partial return to the system of regulating world trade based on bilateral treaties, which was characteristic of the late XIX – early XX centuries and could not withstand the shocks of the crisis of the late 1920s.
- While it seems unlikely that such a system would be created or "rebuilt and strengthened", it could be a US-centered "star" structure, focused on the needs and interests of the US. Also, such a system could be highly discriminatory, both against countries that would not be included in it and, most likely, even against mutual trade countries that would become its members.
- Even though all US partners will be interested in reaching agreements, major market players (primarily China and the EU) will not make explicit unilateral concessions. The information that has emerged about the framework agreements between the US and China will be clarified. At the same time, the assessment of the balance of agreements needs to be clarified over time.



1. **Along with the global fragmentation of markets, we can note the global restructuring of (a) the technology market, (b) the labor market in many countries of the world.** This has two factors: platformization (uberization) of the economy and artificial intelligence. As a result, the problem of human capital is being rethought, caused by record low (less than 2.5%) unemployment and the transition from routine to creative activity.
2. **In this regard, the internal sovereignty of countries should be a determinant of economic sustainability,** and it should be divided into two niches — people and production.
3. **Why human capital is our new oil?** Empirical data provided by IS RAS and HSE (2024) confirm the thesis expressed by Eric Maskin, Nobel Prize winner in Economics, about the importance of human capital for Russia. Statistical analysis of the duration of education in the early 2020s shows that the average indicator for Russians in the 25–44 age group exceeds similar values recorded in Western and Eastern Europe, as well as in the US and amounts to 14 years. And this is an average indicator. This indicates a potential competitive advantage due to the high level of educated population, which, however, requires effective capitalization to stimulate economic growth.

Threats to human capital development. Despite the reported increase in science funding in Russia in 2023, indicating support from both the government and the private sector, the share of research and development (R&D) expenditures in GDP remains relatively low (about 1%), which corresponds to 43rd place in the international ranking. The leaders in this indicator are Israel, the Republic of Korea, Taiwan and the US, which demonstrate a significantly higher intensity of scientific research. Nevertheless, due to the positive dynamics, the Russian Federation ranks 9th in the world in terms of absolute volumes of science funding, which, however, is behind the leading positions of the US, China, Japan, Germany and the Republic of Korea, as well as Great Britain, France and Taiwan. This situation points to the need to further increase investments in science and improve the efficiency of their use to ensure sustainable economic growth and increase competitiveness of the Russian economy.

The second point of growth is the development of domestic markets.

In general, during the crisis, the production of high-tech products increased significantly. Domestic tourism, public catering, many types of paid services to the population, as well as some traditional industries focused on domestic demand received a serious boost. The enterprises of the manufacturing sector in early 2025 demonstrate moderate optimism regarding the dynamics of demand, both in the domestic and export markets, while the overall economic situation remains at a level close to the pre-sanctions period. Exports are less sensitive to sanctions, and estimates of exports in 2024 have increased, reflecting adaptation to the new conditions of foreign trade. This indicates the ability of the Russian economy to restructure and search for new markets (data of the Central Bank, HSE University, Federal Service for State Statistics (Rosstat), calculated by the HSE University).

An important signal is the growth of employment expectations in the investment goods sector (Q1 2022 – Q1 2024), which indicates the development of import substitution and activity of enterprises focused on the needs of the military-industrial complex. The impulse of employment in the production of intermediate goods (Q1 2022 – Q4 2023) reflects the localization of global value chains and the reorientation of businesses to domestic suppliers. These processes indicate a deepening of production linkages within the country and increase in the resilience of the economy to external shocks.

Investment activity demonstrated the greatest growth in the sector of small and medium-sized enterprises and in the production of investment goods of manufacturing industries. The surge in investment activity in all three sectors (investment, intermediate and consumer goods) was associated with adaptation to new conditions, the development of import substitution technologies and the filling of vacated market niches. The SME sector played an active role. This is an extremely positive trend, as it indicates entrepreneurial activity and the willingness of businesses to invest in development despite external challenges. The growth of investment in the SME sector is an important factor for economic diversification and job creation.

Threats to industrial and production growth. Despite the observed positive trends, the Russian economy faces a few constraints and threats that may slow down growth rates. Since mid-2024, the tightening of monetary policy and worsening credit conditions have had a negative impact on investment activity, which is especially sensitive given the high share of borrowed funds in the financing of investment projects (about 40%). Barriers to growth in the manufacturing sector are increasing, including rising credit costs, staff shortages, increased tax pressure, and general macroeconomic uncertainty. The problem of staff shortages, which existed in manufacturing even before the sanctions shock, has worsened since 2022. It is most acute in large and medium-sized enterprises, as well as in the investment goods manufacturing sector, where the most pronounced staff shortages have been recorded due to high expectations of companies from expanding their workforce to implement ambitious projects. However, since the beginning of 2024, there has been a decrease in hiring forecasts, indicating a potential adjustment of plans due to resource constraints.

4. Fiscal policy and social reproduction as a "supporting framework" of domestic sovereignty. Balanced budgetary policy, oriented to the structural primary balance, should consider the need to maintain the incomes of those employed in the budget sector and prevent the increase of social inequality, which is crucial for ensuring macroeconomic stability and social reproduction.
5. External markets are important at the same time. For example, in the long term, a noticeable rise in industrial production is possible if the pre-crisis volumes of mineral production (primarily oil, but also to some extent natural gas and coal) are restored. For this to happen, external demand must be restored, which is also necessary to restore the volumes of wood processing and wood products production. The prolonged recovery in the production of motor vehicles (primarily passenger cars) and components along the entire technological chain can also make a significant contribution to the recovery of the industry.

- In conclusion, we emphasize that sustainability in turbulent conditions requires a comprehensive approach that combines internal transformations and an active foreign policy. In the context of geopolitical fragmentation, Russia can play a key role in shaping a new, more balanced and fair global economic architecture focused on cooperation with the Global South and the creation of alternative development models. At the same time, to ensure domestic growth, it is necessary to find a balance between the normalization of fiscal policy and support for those employed in the public sector, as well as take measures to overcome the human resources deficit, support industrial production (processing) and R&D. In this case, the key element of success is precisely the simultaneous strengthening of both internal and external resilience — this guarantees the basis for growth.



Для заметок

