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INTERNATIONAL TRADE AS A CHANNEL OF INFLUENCE OF GLOBALIZATION ON THE ECONOMIC DEVELOPMENT OF PARTICIPANT COUNTRIES OF THE BELT AND ROAD INITIATIVE

The article analyses how the facilitation of open trade among countries-participants of the Belt and Road initiative affects their economic growth. The impact of free international trade on the economic inequality of the countries of the world represents a serious theoretical problem, and there is no single point of view among the academic community.

It is known that the globalization of international trade can stimulate economic growth or slow it down. The latter occurs when developing countries fall into the trap of commodity specialization, including due to a weak diversification of exports. These issues are the key challenges for Russia and other former Soviet and African countries-participants of the Belt and Road project. As most of the countries-participants of OBOR have a strong specialization of exports in the traditional sectors. We discuss the instruments how to facilitate unimpeded trade within OBOR countries and minimize the risks of the reduction of economic growth.

The authors focus on the assessment of the potential for mutually beneficial cooperation in the sphere of international trade between them and offer a set of measures aimed to support and develop the export activities in terms of integration in OBOR project.

We examine an export basket of Russia and reveal the new export goods for it, which might be used to transform the productive structure and upgrade export among OBOR countries. As a result, the authors get a cluster of new and the most attractive export goods. The establishment of industrial cooperation between OBOR countries, which have a comparative advantage in these complementary areas, can increase the productive capacity of these industries and lead to a win-win result.

Keywords: One Belt One Road', China-Mongolia-Russia Economic Corridor, export, international trade, globalization, economic cooperation, economic development

Introduction

The concept of 'One Belt and One Road' was introduced by the President of China Xi Jinping in 2015 as a part of the international initiative of China, which aims to improve the existing trade routes and create new ones, to establish transport and economic corridors linking more than sixty countries of Central Asia, Europe and Africa. The Initiative is expected to contribute to the development of trade relations between the participant countries and China.

The main content of this initiative is described in the recent literature, for example by Makarov, A. Sokolova[1], S.Ze[2], and D.Yi[3]. I.V.Stavrov[4] and B. Otgonsuren[5] examined the project of the economic corridor China-Mongolia-Russia as a part of the Belt and Road strategy.

The framework of the Initiative rests on five key 'whales': promotion of policy coordination, infrastructure development and connectivity, unimpeded trade, financial integration and people-to-people bonds. All these principles lead to increasing globalization among countries in Asia, Europe and Africa.

Globalization is a highly complex multidimensional process with hundreds of varying definitions used in scholarly literature. For example, Guillen [6]. and N. Crafts[7] consider globalization as the process of integrating the markets of goods and capital worldwide, accompanied by partial removal of barriers to international trade and foreign investment.

Nowadays the level of globalization of East Asia and the Pacific, Central Asia and Africa is still low, which is proven by the indexes measuring the level of globalization (see, for example, the latest DHL Global Connectedness study). This index is taking into account the mixture of indicators pertaining to what can be called ‘breadth’ and ‘depth’ of globalization and uses flows as their basic measurement units (flows of goods, people, information, etc.). Depth refers to the size of the country’s international flows as compared to the relevant measure of the size of its domestic economy. Breadth measures how closely the country’s distribution of international flows across its partner countries matches the global distribution of the same flows in the opposite direction. The breadth of the country’s merchandise exports, for example, is measured on the basis of the difference between the distribution of its exports across destination countries versus the rest of the world’s distribution of merchandise imports.

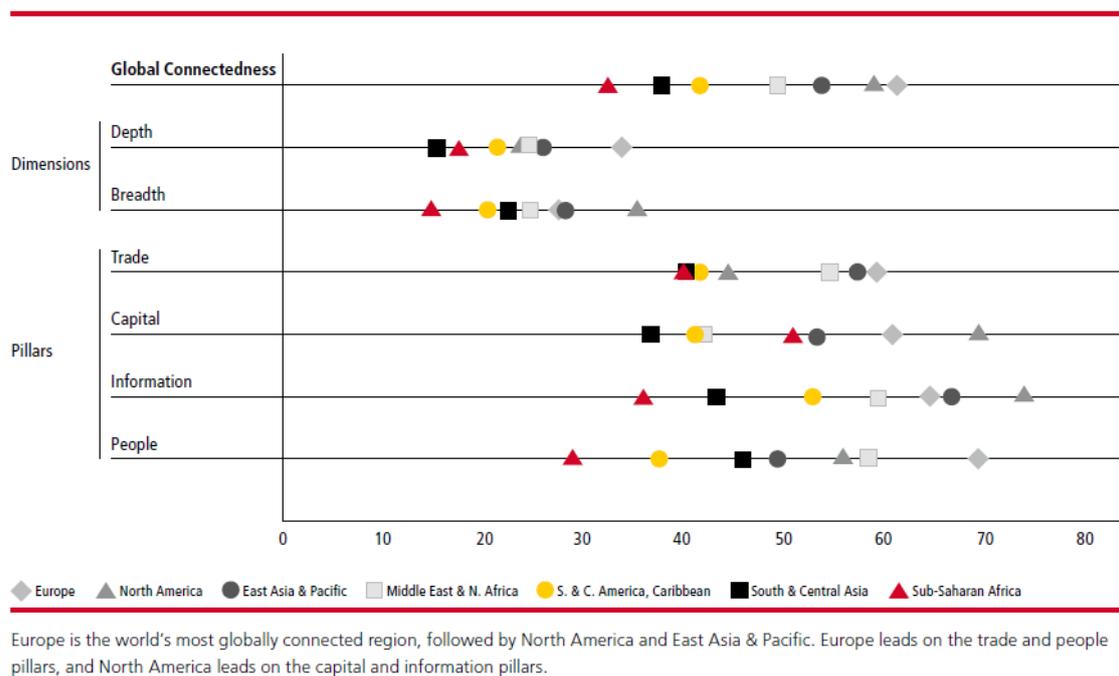


Fig. 1. Regional average scores of the Global Connectedness Index, 2015
Source: DHL Global Connectedness Index, 2016 [8].

Figure 1 displays average global connectedness, depth, breadth, and pillar scores for countries in each region. In terms of overall global connectedness, countries in Europe average the highest levels of connectedness followed closely by those in North America. East Asia, the Pacific, the Middle East and North Africa come next and are followed at some distance by South and Central America, the Caribbean, South and Central Asia, and Sub-Saharan Africa.

The top five ranks on the DHL Global Connectedness Index are held, in descending order, by the Netherlands, Singapore, Ireland, Switzerland, Luxembourg. The top ten are all among the world’s most prosperous countries, and all but one (the United Arab Emirates) are classified as advanced economies by the International Monetary Fund (IMF).

In 2015, of the 140 countries for which the index of globalization was calculated, Hong Kong(China) ranked 17th; Taiwan (China), 21st; China, 68th; and Russia 67th.

Russia’s connectedness is not high, because, firstly, Russia lacks outlets to the sea and, therefore, to sea transport routes, which provide the cheapest way for transporting goods. Secondly, Russia’s level of development is not very high while globalization is led by developed countries. Thirdly, Russia has a large territory with an underdeveloped land transport system, which is a significant barrier to the export and import of goods.

The Belt and Road Initiative aims to increase connectedness of all countries participating in the project, including China and Russia. The main purpose of raising the level of globalization of the project's participants is to intensify their economic growth.

The Belt and Road Initiative is based on the assumption that globalization leads to economic growth of all participant countries. However, the impact of globalization on the economic growth and economic inequality of countries is a serious theoretical problem, which is actively debated within the academic community.

According to the neoclassical trend in economic theory, higher openness of countries is beneficial for their economic growth, but different countries can benefit from globalization in different degrees. Within the institutional and post-industrial paradigms, the question becomes even more complicated. For example V. Inozemtsev[9] introduces the thesis about the divergent nature of globalization in modern world economy. Globalization is not a polycentric process leading to the formation of the world community network. Globalization is a monocentric process in which the world is divided into the center and periphery, with the periphery being subordinate to the center. The 'center' creates a socio-economic model based on new technology and liberal ideology. This model has a high degree of commonality, so it can easily be implemented in 'peripheral' countries. Since globalization is beneficial to the center, it is the center that regulates the process of globalization. In this sense, Inozemtsev questioned the spontaneity of the globalization process.

Globalization can influence economic growth and convergence of countries through foreign direct investment, international labor movement, and renovation of infrastructure. This type of influence is more or less obvious while the impact of international trade on the same parameters is less evident and, therefore, causes much debate.

Conceptual framework

There are two basic theories of international trade: theory of comparative advantage (Heckscher-Ohlin model) and the theory of monopolistic competition (P.Krugman's model [10]). In both works, there is no definite conclusion about the direction of the impact of international trade on economic growth and convergence of countries. This topic has also been studied by J.Williamson [11], D.Ben-David [12], and S.Edwards [13]. International trade, according to a large number of authors, facilitates the international transfer of technologies and thus increases productivity in relatively backward countries.

Empirical study on the impact of trade on economic growth was conducted by J.Frankel and Romer D.[14]. They found out that between 1960 and 1985, an increase in the ratio of foreign trade to GDP by 1% lead to an increase in the country's income and growth rate by 1.5%. However, M.Clemens and J.Williamson[15] in 2001 found that before World War II this influence had been reverse.

P.Vorobyev [16] studies the relationship between economic growth and the characteristics of countries' openness to international operations. This econometric study used the sample of 78 countries between 1991 and 2006. It was found that globalization should contribute to the rapprochement of countries by GDP per capita, that is, to reinforce the convergence of countries. However, different components of globalization have a different impact on convergence of countries in the world. Apparently, globalization of world trade can facilitate or impede growth. The latter is the case if globalization supports developing countries' specialization in exporting raw materials.

N.Leitão [17] analyzed the connection between economic growth, globalization and trade in the U.S.A and found that globalization increases or provokes economic growth.

A.Umaru et al. [18] analyzed globalization's effects on Nigeria's economic performance between 1962 and 2009. He found out that globalization affects petrol, manufacturing industry and solid mineral sectors in negative ways while it positively affects the agriculture, transportation and communication sectors.

Y.Ying [19] analyzed the connection between social and political globalization and economic growth in ASEAN countries in 1970-2008 and found out that economic globalization influences economic growth in a positive way while social and political globalization affects it in negative ways.

Thus, most authors believe that the impact of international trade on economic growth and convergence of countries depends on whether international trade is associated with the movement of resources in the sectors that create positive externalities for long-term economic growth (for example, research and

development, manufacturing, and education). For a developing country, it is very important to follow the trend of developing new high-tech industries. G.Grossman and E.Helpman [20], R.Feenstra [21], and K.Matsuyama [22] cite examples of poorly developed countries in which international trade stimulated specialization in traditional sectors of economy, which impeded their long-term economic growth.

Current cooperation in international trade between Russia and countries of the Road and Belt Initiative

China’s Initiative aims to boost international trade among the participant countries, which makes it interesting to look at the current amount and structure of bilateral trade between them.

Table 1.

Russia’s importing and exporting markets with other participants of the Belt and Road Initiative¹

Countries	Exported value in 2016 from Russia, US Dollar thousand	Share in Russia's exports, %	Imported value in 2016 from Russia, US Dollar thousand	Share in Russia's imports, %
China	28 021 250	10%	38 086 982	20,9%
Turkey	13 698 261	5%	2 147 525	1,2%
Belarus	14 050 697	5%	9 406 285	5,2%
Kazakhstan	9 426 891	3%	3 612 215	2,0%
Mongolia	895672	0%	35 909	0,0%
11 participant countries*	14 194 143	5%	5 315 783	2,9%
World	285 491 052	100%	182 261 656	100%

*Azerbaijan, Georgia, India, Iran, Pakistan, Tajikistan, Turkmenistan, Uzbekistan, Armenia, Belarus, Kyrgyzstan

China is one of Russia’s leading trade partners, ranking second in terms of its share in Russia’s total export in 2016, and ranking first in terms of its share in import. The second largest Russia’s partner among the participant countries is Belarus, the third is Turkey. The sixteen countries mentioned in Table 1 together account for 28% of Russia’s export and 32,2% of Russia’s import. Thus, nearly one third of Russia’s exports and imports is associated with these countries.

Figure 2 illustrates the recent dynamics of bilateral trade between Russia and China and Figure 3, between Russia and the other fifteen participant countries, except for China.

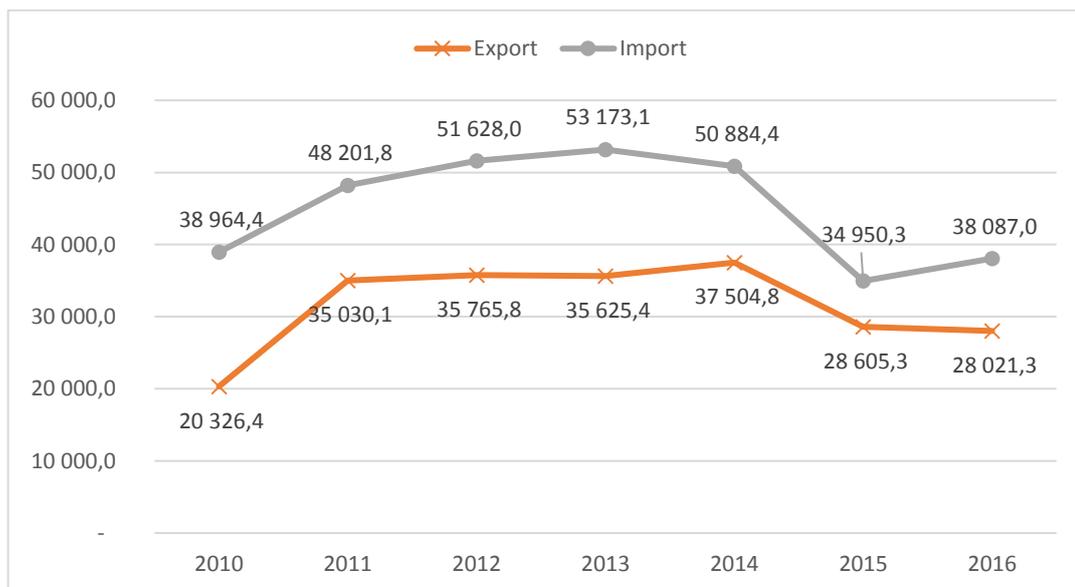


Fig. 2. The volume of international trade between Russia and China, US Dollar, million¹

¹ Compiled by the author according to the data from the ITC trade map [23]

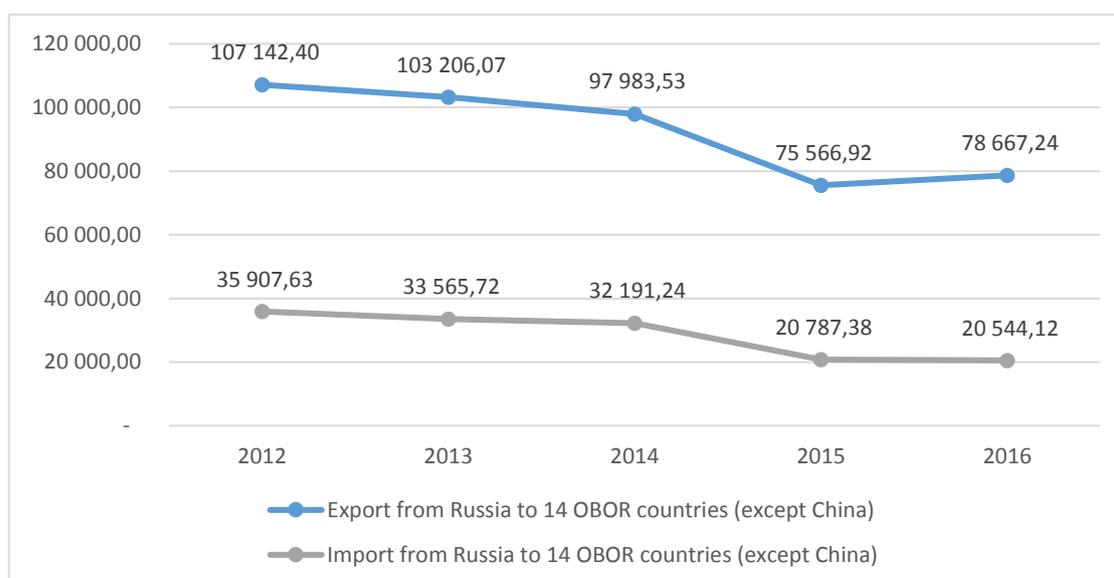


Fig. 3. The volume of international trade between Russia and the fourteen participant countries: Azerbaijan, Georgia, India, Iran, Pakistan, Tajikistan, Turkmenistan, Uzbekistan, Armenia, Belarus, Kyrgyzstan, Turkey, Belarus, Kazakhstan, Mongolia, US Dollar, million²

The fall in bilateral trade between Russia and the above-mentioned countries after 2014 is caused by a general slowdown in the global economy, lower energy prices and a change in the exchange rate of the dollar. By 2014, it is easy to see a quite low growth of indicators of bilateral trade and stagnation, which is especially clearly if we look at the example of Russian-Chinese trade, in which the index remained at the same level for four years. Therefore, we can conclude that the amount of trade and economic cooperation between Russia, China and other participants of the Belt and Road Initiative is far from its potential level.

Table 2.

Commodity structure of Russian exports to China 2010-2016, %²

Name of the product group (commodity nomenclature of foreign economic activity)	Mineral products (25-27)	Wood, pulp and paper products (44-49)	Machinery, equipment and vehicles (84-90)	Food products and agricultural raw materials (01-24)	Chemical products (28-40)	Metals and products made of them (72-83)	Other (41-43, 50-71, 91-97, SS)
2 010	55,6%	14,2%	5,3%	4,7%	8,1%	3,4%	8,7%
2 011	72,3%	9,6%	2,4%	2,7%	9,9%	1,5%	1,7%
2 012	75,7%	8,0%	3,3%	2,9%	9%	1,0%	0,5%
2 013	76,0%	8,4%	3,8%	3,0%	5,7%	1,0%	2,1%
2 014	77,0%	8,9%	4,2%	3,8%	5,0%	0,9%	0,1%
2 015	69,0%	10,6%	6,3%	4,8%	6,5%	1,3%	1,4%
2 016	66,7%	12,2%	6,9%	5,8%	5,1%	0,8%	2,5%

In the structure of Russia's exports to China in 2016 the main part of deliveries accounts for mineral products (67% of the total volume of Russia's exports to China); wood and pulp and paper products, 12.15% of the total volume of Russia's exports to China (see Table 2).

² Compiled by the author according to the data from the ITC trade map [23]

Since 2020, we should also expect a growth in exports of gas from Russia to China due to the construction of the eastern route of China-Russia natural gas pipeline, which started in June 2015. The pipeline will consist of the northern cut 'Heihe Changling', medium cut 'Changling - Yongqing County of Hebei Province' and the southern segment 'Yongqing Shanghai'. The northern section is expected to be commissioned in October 2019, and the whole line will be built until the end of 2020.

After the launch of the pipeline, Russia will supply to China about 38 billion cubic meters of gas annually. Thus, the structure of Russian exports will become even more focused on the supply of mineral products.

In the structure of Russia's imports from China in 2016, the main part of deliveries accounts for the following types of goods: machinery, equipment and vehicles – 58,65% of the total volume of Russia's imports from China; textiles and footwear, 11,38%; and chemical products, 9.43%.

Table 3.

Indices of exports of Russia and China in terms of gross output and value added³

Indicator	Exports final consumption (gross figure)		Exports of intermediate consumption (gross figure)		National value added in the consumption of goods end-use abroad	
	China	Russia	China	Russia	China	Russia
Country						
Agriculture and forestry	4 153	2 730	7 300	3 426	76 787	6 525
Extractive industries	743	15 006	6 828	154 514	71 759	139 380
Food products	22 457	3 954	11 980	2 214	23 356	3 445
Textiles and articles thereof	142 794	657	58 181	150	70 492	416
Woodworking industry	4 439	808	21 169	6 910	24 175	5 045
Chemical industry	42 965	36 436	154 204	81 849	113 724	58 790
Metallurgy	11 778	5 222	117 723	93 190	79 058	30 625
Mechanical Engineering	67 176	4 890	78 548	10 470	56 812	7 553
Electronic and optical equipment	273 985	4 542	301 252	3 929	116 395	5 570
Transport equipment	57 248	3 361	44 659	2 677	39 122	4 960
Construction	5 812	4 670	1 032	1 179	2 703	8 397

As Table 3 shows, the volume of exports of goods to final and intermediate consumption for Russia is higher than the figures for China only in the case of extractive industries. It is important to understand that the industry structure affects the nature of trade in both economies.

Both in Russia and China, trade in goods of intermediate consumption dominates in such sectors as agriculture, extractive manufacturing, wood industry, chemical industry, and metallurgy. These industries are mostly resource intensive, which can stimulate the development of industrial cooperation with those partner countries that have significant resource potential.

It is also important to note that such industries as mechanical engineering, manufacturing of electronic and optical equipment, and transport equipment are characterized by a significant length of their production chains. For engineering, the share of trade in goods of intermediate consumption prevails, like in the case of China and Russia, which signifies the existing potential for industrial cooperation in this field with the selection of specialized niches, depending on national competitive advantages of the participating countries.

Table 4 demonstrates the structure of Russia's export to its main foreign trade partners. We have also included Mongolia in the analysis because this country participates in the project of the Russia-Mongolia-China Economic Corridor.

³ Compiled by the author by using the data from the WTO-OECD TiVA Database [24]

Table 4.

Commodity structure of Russian exports to China, Turkey, Belarus, Kazakhstan and Mongolia, %⁴

Name of the product group (commodity nomenclature of foreign economic activity)	Mineral products (25-27)	Wood, pulp and paper products (44-49)	Machinery, equipment and vehicles (84-90)	Food products and agricultural raw materials (01-24)	Chemical products (28-40)	Metals and products made of them (72-83)	Other (41-43, 50-71, 91-97, SS)
China	67%	12%	7%	6%	5%	1%	3%
Turkey	57%	1%	1%	12%	2%	5%	22%
Belarus	53%	2%	12%	6%	10%	11%	6%
Kazakhstan	17%	5%	23%	14%	16%	14%	12%
Mongolia	60%	1%	8%	18%	7%	2%	3%

In the structure of Russia's exports to Mongolia in 2016, the main part of deliveries accounts for mineral products (60% of the total volume of Russia's exports to Mongolia); food products and agricultural raw materials (18%); machinery, equipment and vehicles (8.3%).

Russia imports from Mongolia mineral products, which accounted for 75% of the total volume of Russia's imports from Mongolia in 2016 (salt, sulphur, earths and stone, plastering materials, lime and cement); and food products and agricultural raw materials (19% in 2016). Due to the sanctions against Russia, further increase in imports of meat and livestock from Mongolia might be beneficial for the Russian Federation.

As Table 3 illustrates, mineral products or raw materials constitute the largest share of Russia's exports to other countries participating in the Initiative. The only exception is the trade between Russia and Kazakhstan. In the structure of Russian exports to Kazakhstan in 2016, machinery, equipment and vehicles accounted for a major share of supplies, that is, 22.68% of the total volume of Russia's exports to Kazakhstan; mineral products, 16.77%. This situation can be explained by the fact that Kazakhstan has large reserves of fossil fuels and metals (uranium, copper, zinc).

An interesting example of an export basket with a higher share of new high-tech industries is the export of Sverdlovsk region (Russia) to China. The case of this region was recently described by I. Turgel et al. [25]. In 2016, chemical products accounted for the largest share of export from Sverdlovsk region to China – 37%. The share of metals and products was 21%; the share of mineral products, 22% (mainly ore (16%) as well as asbestos and stone).

In January-September 2017, the export from Sverdlovsk region to China increased 1.8 times (compared with the same period in 2016) and amounted to \$248 million. The structure of export basket of Sverdlovsk region to China has changed dramatically (see Figure 4). Metal and metal products now account for 76% of exports.

⁴ Compiled by the author according to the data from the ITC trade map [23]

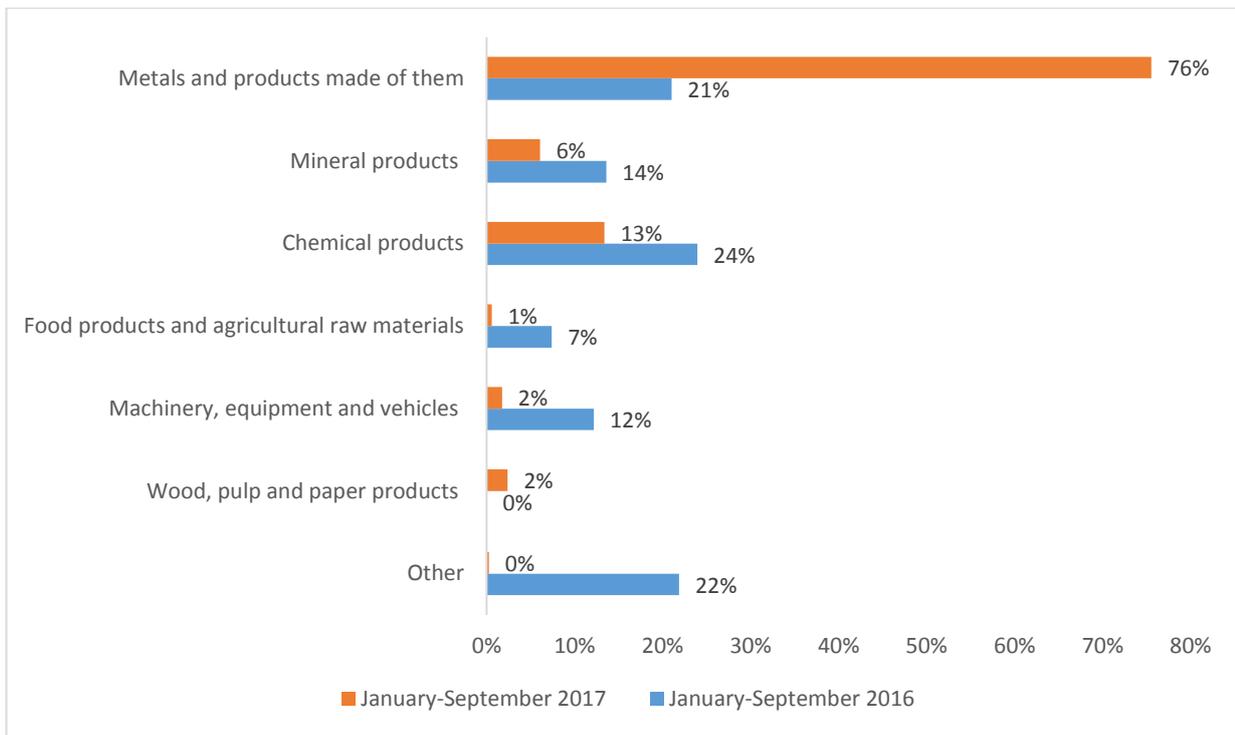


Fig. 4. The structure of exports from Sverdlovsk region (Russia) to China in 2016 and 2017⁵

Thus, Sverdlovsk region supplies raw materials for Chinese industry while the Chinese send to the region industrial production of intermediate processes and consumer products. Moreover, the range of China's exports is much more diverse than the export of Sverdlovsk region; the depth of penetration and the breadth of coverage of Chinese products in the Ural market are much higher than those of the Ural manufacturers in China.

There is a strong specialization of Russian exports in the traditional sectors, which may lead to a decline in the country's long-term economic growth in the conditions of open trade within the Initiative framework, in particular within the program for creation of the economic corridor China–Mongolia–Russia. In the next section we shall discuss instruments that may facilitate trade among the participants of the Initiative and minimize the risks of damaging their economic growth.

Opportunities for mutually beneficial 'win-win' trade cooperation among the countries of the Belt and Road Initiative

To minimize the risk of growth reduction due to the recourse curse and avoid high volatility of exports, it is necessary to diversify the exports basket of Russia.

In many respects, the prospects for increasing industrial cooperation with partners depend on the competitive advantages of the economic players. To decide on the potential exports of the key manufacturing industries for Russia and its main trading partners, we need to identify the comparative advantage goods for each country. To do this, we used the Balassa's index (RCA):

$$RCA = \frac{x_{ji}}{x_j} / \frac{x_i}{x}, \quad (1)$$

where x_{ji} is the value of exports of product i by country j ; x_j is the value of total exports of the country j (all products); x_i is the value of world exports of good i (all countries); x signifies total world exports (of all goods and all countries).

⁵ Compiled by the author according to the data provided by the Federal Customs Service of Russia, Ural Branch [26]

The index shows the ratio of the share of exports of a certain product in full export of a particular country to the share of world exports of the same commodity in world exports.

To define the structure of the export baskets of the countries, we used two-digit codes of goods according to the SITC classification (Standard International Trade Classification). Data on exports of goods by countries was taken from the statistical base of the ITC trade map for 2016.

Figure 5 presents the RCA indexes for five participants of the Belt and Road Initiative. The country has a competitive advantage in those products for which the RCA index is more than one, that is, when the country's share in the world market of this product is higher than the share of the country's exports in total world exports.

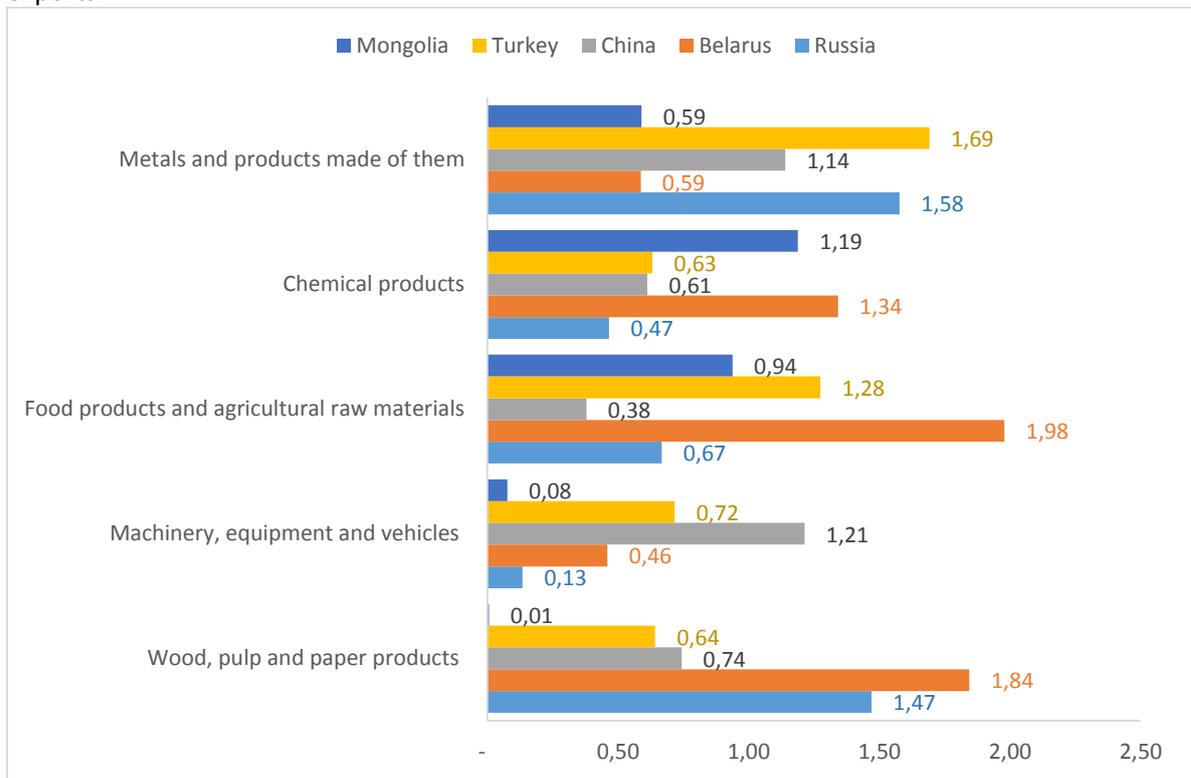


Fig. 5. Comparative competitive advantages of Russia

In comparison with China, Russian economy has competitive advantages in such resource-intensive industries as metallurgy and woodworking industry. However, in such industries as manufacturing, transport, electronic and optical equipment the RCA is less than 1. Establishment of industrial cooperation with the countries which have a comparative advantage in these areas can increase the productive capacity of these industries in Russia.

To get more specific results and to find more industries which could diversify Russia's export, we analyzed the RCA index for smaller product groups. Figure 6 shows the commodity groups in which Russia has a comparative advantage in the export of goods. The top five industries (except for mineral products) are fertilizers, nickel and nickel products, cereals, wood and wooden products, iron and steel.

Nowadays Russia has only 17 industries (out of 98 industries), in which the RCA index is higher than 1, while Turkey has 51 RCA industries; Belarus, 31; China, 43 industries.

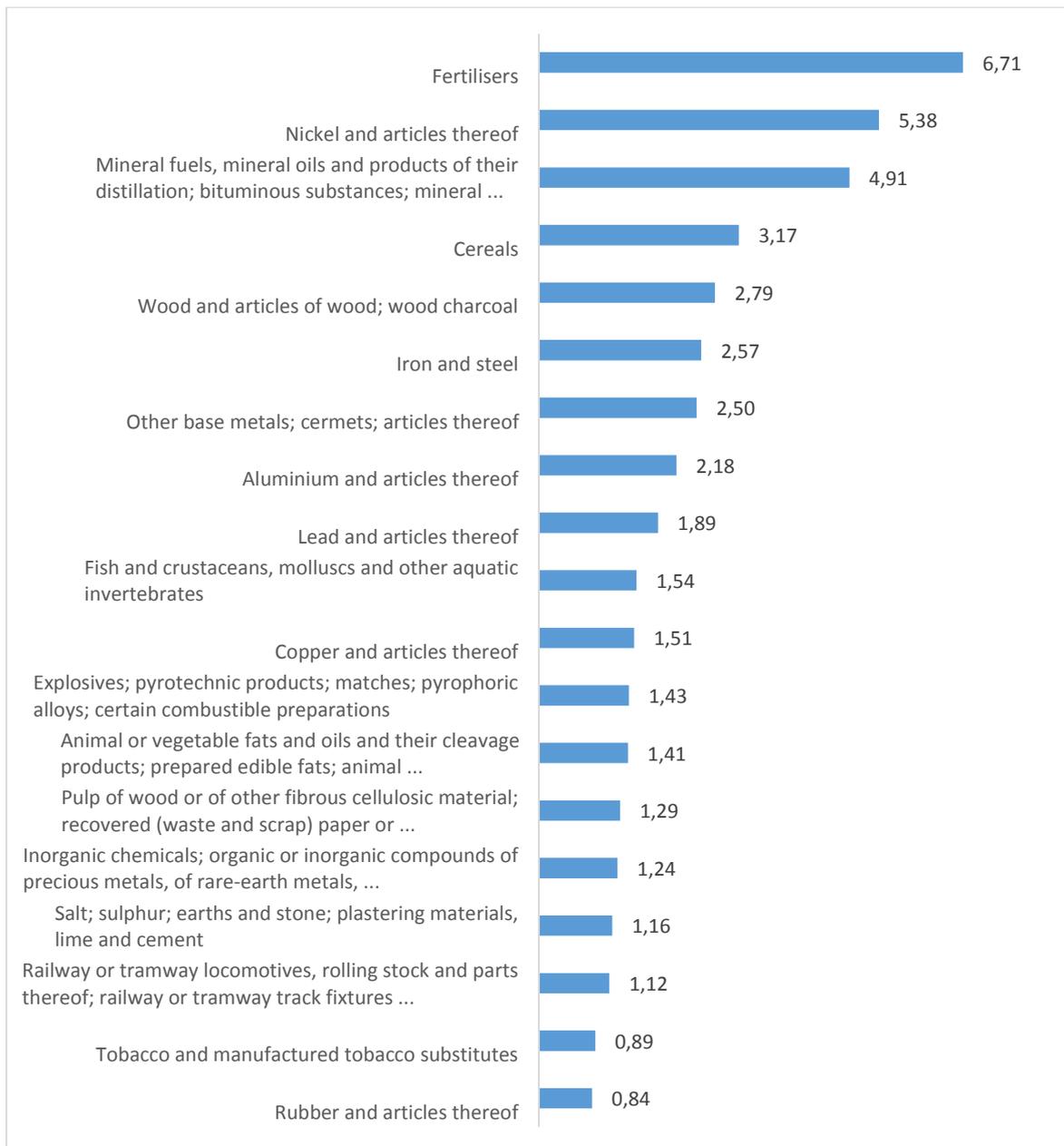


Fig. 6. Comparative competitive advantages of Russia⁶

Members of the economic corridor project can increase the efficiency of their participation in CDS by designing the corresponding economic policies, combining tariff regulation with subsequent changes in the scope of non-tariff regulation, by introducing industrial reforms, and improving their institutional environment.

Conclusion

Globalization of world trade can facilitate growth or impede it. The latter situation occurs if developing countries specialize in the export of raw materials, which is detrimental to their growth. This is a key challenge for Russia in the context of its participation in the Belt and Road Initiative.

The current structure of Russia's integration into the world economy and its integration with China and Mongolia in particular, consists in the export of raw materials and it does not correspond to the model of scientific-technical integration, which is the most significant in the context of globalization. At the same time Russia has potential for development in the sphere of technological innovation as it has highly qualified research workforce and opportunities for training of such personnel.

⁶ Compiled by the author according to the data from the ITC trade map Database [23]

Today, there are a number of prospective directions to expand industrial cooperation and collaboration between the key players of the Initiative. These directions are determined by the competitive advantages of the countries participating in the project. Russia has competitive advantages in the global markets of metallurgy and woodworking industry and can put some effort into enhancing the role of Russian producers in the markets of partner countries. In the case of engineering and manufacturing of transport equipment, it is necessary to identify the specific niches of domestic producers and to strengthen cooperation with the most competitive foreign partners in order to stimulate the development of the Russian mining industry.

It is possible to formulate a number of recommendations for Russia's economic policy in the light of the country's integration into the world economy within the framework of the Initiative.

First, to benefit from globalization it is necessary to change the raw material orientation of the economy to exports of the manufacturing industry, which implies higher capital intensity and higher requirements to the human capital. It may also be productive to provide support for exporters of non-resource sectors. It is particularly important to providing exporters with packages of privileges and preferences in the period of macroeconomic instability. Such measures will be able to stimulate the expansion of non-oil sectors in the economy and the diversification of export activities in Russia.

Second, to ensure technological gains from globalization, it is necessary to develop education and to train highly qualified specialists able to develop and utilize new knowledge and technologies applicable in the world economy. China is already focused on the development of education and is trying to attract more human capital through academic exchange programs. Chinese government provides 10,000 scholarships to the countries along the Belt and Road Initiative every year. Such policy will enable China to successfully import leading young scientists from the developing countries. For Russia, this would be another reminder of the need to devise its own policies to prevent brain drain.

Thirdly, it is advisable to refrain from excessive liberalization of foreign trade, which can lead to falling into the trap of raw material specialization. To do this, the government can impose physical restrictions on the export of raw materials and products with a low degree of processing. These restrictions may be in the form of quotas or the government may choose not to construct any additional export infrastructure.

Finally, it is necessary to promote foreign investment in the country's economy. The investment industry should be characterized by high capital intensity and high level of technology.

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