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## INTERNATIONAL TRADE AS A CHANNEL OF INFLUENCE OF GLOBALIZATION ON ECONOMIC DEVELOPMENT OF THE COUNTRIES-PARTIES OF OBOR INITIATIVE

*The paper is aimed to discuss the influence of promoting free-trade between countries participants of Belt and Road initiative. the globalization of world trade can facilitate growth, and to inhibit it. The latter is the case, if there is a fixing of specialization of developing countries in exporting raw materials. And this is a key challenge for Russia, in relation to participation in the OBOR initiative. Opportunities for mutual benefit and win-win cooperation in international trade within OBOR countries are discussed. The paper offers policy recommendations for Russia in the conditions of integration into the world economy in the framework of OBOR project.*

**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» (OBOR) was nominated by the President of China XI Jinping in 2015, as an international initiative of China, which aims to improve existing and create new trade routes, transport and economic corridors linking more than 60 countries of Central Asia, Europe and Africa, which will contribute to the development of trade relations between them and China.

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

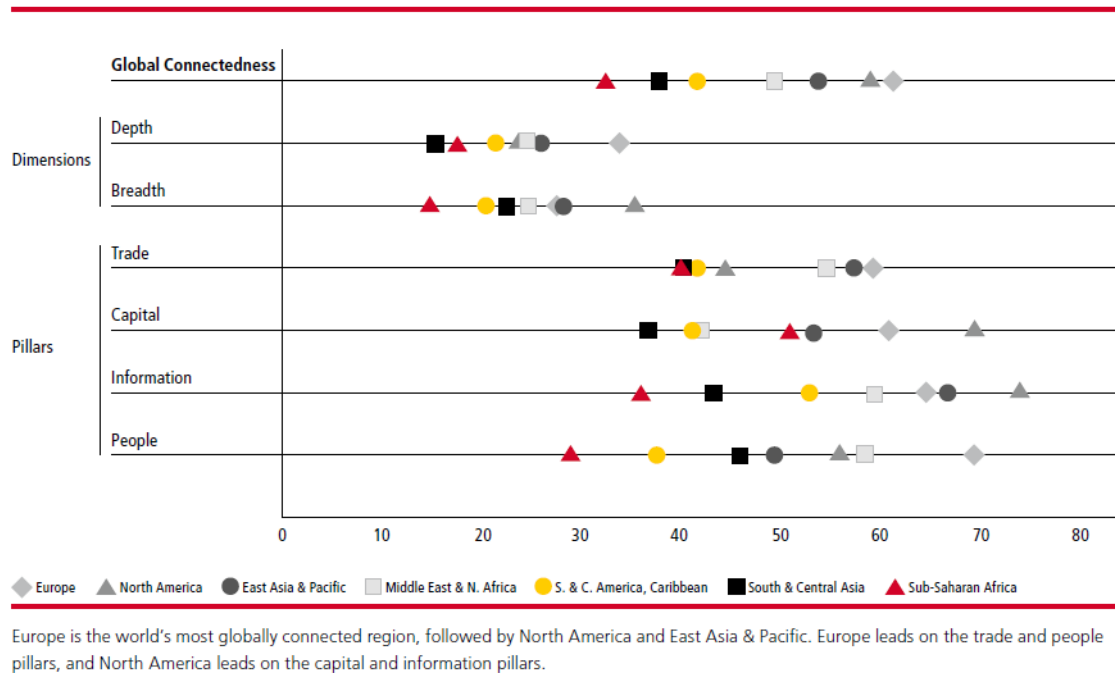
The OBOR framework is based on five key whales: promotion of policy coordination, infrastructure development and connectivity, unimpeded trade, financial integration and people-to-people bonds. All these foundations lead to an increasing of globalization among countries in Asia, Europe and Africa.

As globalization is a highly complex multidimensional process with hundreds of varying definitions used in scholarly literature, see, e.g. Guillen [6]. N. Crafts[7] considers globalization as the process of integrating the markets of goods and capital worldwide, in which there is a decrease in barriers to international trade and foreign investment.

Nowadays the level of globalization of East Asia and Pacific, Central Asia and Africa is remaining low, which is proved by different indexes measuring the level of globalization, 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” dimensions of globalization, and takes flows as their basic measurement units (flows of goods, people, information, etc.). Depth refers to the size of a country’s international flows as compared to a relevant measure of the size of its domestic economy. Breadth measures how closely a 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 a country’s merchandise exports, for example, is measured based on 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 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 & Pacific and Middle East & North Africa come next, and are followed at some distance by South & Central America & 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 10 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 calculated index of globalization, Hong Kong(China) took 17th place, Taiwan (China) – 21th place, China – 68<sup>th</sup> place, Russia took the 67th place.

The connectedness of Russia is not high, because at first, Russia has not a large number of outlets to the sea transport routes. But it is shipping is the cheapest method of transporting goods. Secondly, Russia does not have a high level of development. It is the developed countries are the leaders of globalization. Thirdly, Russia has a large territory with underdeveloped land transport system that is a significant barrier for export/import of goods.

The OBOR initiative is proposed in a proper time to increase connectedness of all countries participating in the projects, including both China and Russia. The main purpose of increasing the level of globalization of countries-participants of the projects is to intensify the economic growth in them.

The OBOR initiative is based on the assumption that globalization leads to an economic growth of all countries, which participate in it. However, the impact of globalization on the economic growth and 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.

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 degree. Within the institutional and post-industrial paradigms, the question becomes even more complicated. For example V. Inozemtsev[9] introduces the thesis of divergent nature of globalization in the modern world economy .

Globalization is not a polycentric process, leading to the formation of the network world community. Globalization is a monocentric process, in which the world is divided into center and periphery, which are in the relationships of subordination of the periphery to the center. "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 the countries of the "periphery". Since globalization is beneficial to center, it regulates the process of globalization. In this sense, V. Inozemtsev questioned the spontaneity of the process of globalization.

While the influence of several elements of globalization such as foreign direct investment, international labor movement and infrastructure update on the economic growth and convergence of countries is more or less distinct, there is no definite conclusion about the impact of an international trade on the same parameters.

### **Conceptual framework**

There are two basic theories of international trade: theory of comparative advantage (Heckscher-Ohlin model) and the theory of monopolistic competition (model by P. Krugman [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. Also, this topic has been studied in empirical works J. Williamson [11], and D. Ben-David [12], S. Edwards [13]. International trade, according to a large number of authors facilitates the international transfer of technologies and thus increase 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 during the 1960-1985 increase in the ratio of foreign trade to GDP by 1 percentage point leads to an increase in country income and growth rate by 1.5 percentage points. However, M. Clemens and J. Williamson [15] in 2001 found that before the II World War this influence was reversed.

The paper P. Vorobyev [16] studies the relationship between economic growth and the characteristics of the openness of countries to international operations. The econometric study used the sample consisted of 78 countries, the time period from 1991 to 2006 year. Thus, the econometric analysis suggests that globalization should contribute to the rapprochement of countries by GDP per capita, that is, to reinforce the convergence of the countries. However, different components of globalization have a different impact on convergence countries in the world. Apparently, the globalization of world trade can facilitate growth, and to inhibit it. The latter is the case, if there is a consolidation of specialization of poor countries on raw-material industries.

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

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

Y. Ying [19] analyzed the connection between social and political globalization and economic growth in ASEAN countries in 1970-2008. This research found out that economic globalization effects economic growth in a positive way but social and political globalization effects 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 the movement of resources in those sectors that create positive externalities for long-term economic growth (such as sector R & D, manufacturing, education). For a developing country it is very important that the world trade have created signals for the development of new high-tech industries. G. Grossman and E. Helpman [20], R. Feenstra [21], K. Matsuyama [22] cite examples of poorly developed countries where international trade stimulated specialization in the traditional sectors of the economy, which reduced long-term economic growth.

**Current cooperation in international trade between Russia and OBOR countries**

OBOR initiative emphasizes the increasing of international trade among countries-participants, so let's see the current amount and structure of bilateral trade between them.

Table 1.

**List of importing and exporting markets in OBOR-countries for Russian Federation**

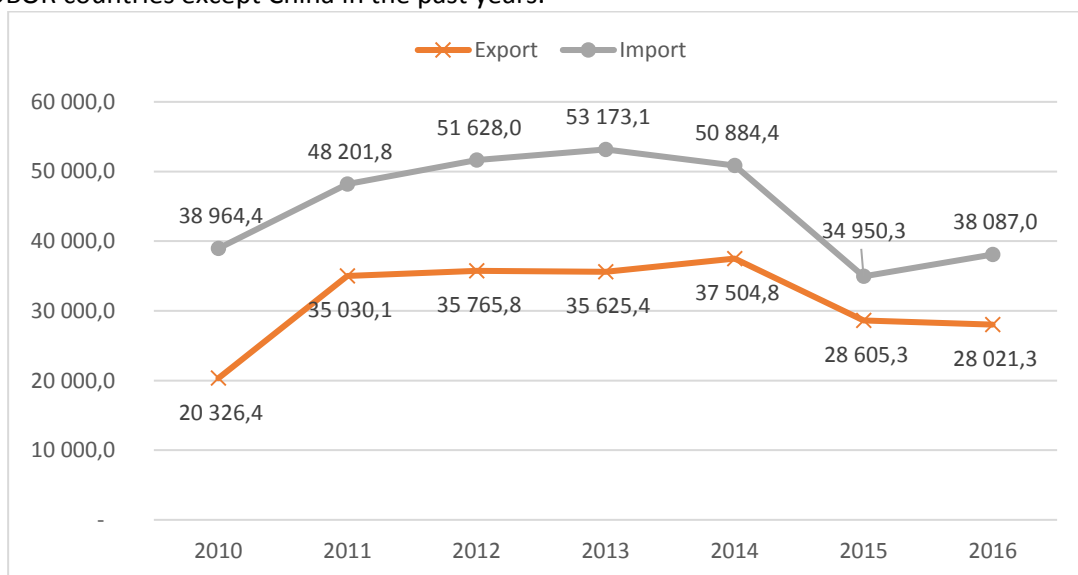
Countries	Exported value in 2016 from Russia, US Dollar thousand	Share in Russia's exports, %	Imported value in 2016 from Russia, US Dollar thousand	Share in Russia's imports, %
China	28 021 250	10%	38 086 982	20,9%
Turkey	13 698 261	5%	2 147 525	1,2%
Belarus	14 050 697	5%	9 406 285	5,2%
Kazakhstan	9 426 891	3%	3 612 215	2,0%
Mongolia	895672	0%	35 909	0,0%
11 OBOR 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

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

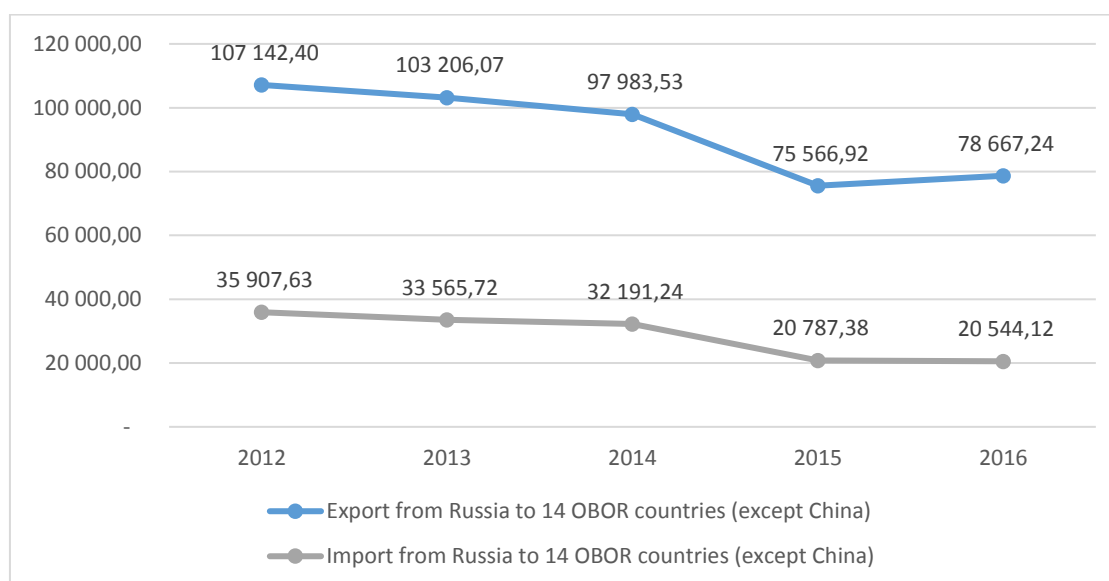
China is one of Russia's leading trade partners, ranking second in terms of its share in Russia's total export in 2016, and ranking first in terms of its share in import. The second largest Russia's partner among OBOR countries is Belarus, the third one is Turkey. Sixteen OBOR countries, mentioned in Table 1, all together have a 28% share in Russia's export and 32,2% - share in Russia's import. So nearly one third of Russia's exports and imports are made with OBOR countries.

Figures 2 and 3 consider the dynamics of bilateral trade in between Russia and China and Russia and other 15 OBOR countries except China in the past years.



**Figure 2.** The volume of international trade of Russia with China, US \$ million

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



**Fig 3.** The volume of international trade of Russia 14 OBOR countries: Azerbaijan, Georgia, India, Iran, Pakistan, Tajikistan, Turkmenistan, Uzbekistan, Armenia, Belarus, Kyrgyzstan, Turkey, Belarus, Kazakhstan, Mongolia, US \$ million

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

The fall of bilateral trade between Russia and other 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 dollar. But by 2014 it is easy to see quite low growth of indicators of bilateral trade and stagnation, which is especially clearly seen on the example of Russian-Chinese trade, where the index remained at the same level for four years. This suggests that the amount of trade and economic cooperation between Russian Federation, China and OBOR-countries is far from its potential level.

Table 2.

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

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)
<b>2 010</b>	55,6%	14,2%	5,3%	4,7%	8,1%	3,4%	8,7%
<b>2 011</b>	72,3%	9,6%	2,4%	2,7%	9,9%	1,5%	1,7%
<b>2 012</b>	75,7%	8,0%	3,3%	2,9%	9%	1,0%	0,5%
<b>2 013</b>	76,0%	8,4%	3,8%	3,0%	5,7%	1,0%	2,1%
<b>2 014</b>	77,0%	8,9%	4,2%	3,8%	5,0%	0,9%	0,1%
<b>2 015</b>	69,0%	10,6%	6,3%	4,8%	6,5%	1,3%	1,4%
<b>2 016</b>	66,7%	12,2%	6,9%	5,8%	5,1%	0,8%	2,5%

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

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).

From 2020, we should also expect a growth in exports of gas from Russia to China, due to the construction of the East route China-Russia natural gas pipeline. In June 2015, construction began on the Eastern route of the China-Russian gas pipeline, which will consist of the North cut «Heihe Changling», medium cut «Changling - Yongqing County of Hebei province» and the southern segment «Yongqing Shanghai». In particular, the Northern section is expected to be commissioned in October 2019, and the whole line will be built before the end of 2020.

After completion of construction and commencement of operation 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%; chemical products - of 9.43%.

Table 3.

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

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

Source: Compiled by the author according to the data from WTO-OECD TiVA Database [24]

As seen from table 3, 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 of both economies.

As for Russia and China trade in goods of intermediate consumption dominates in such sectors as agriculture, extractive manufacturing, wood industry, chemical industry, metallurgy. Mostly these industries are resource intensive, which can stimulate the development of industrial cooperation with countries-partners that have significant resource potential.

Separately, it is important to note such industries as mechanical engineering, manufacture of electronic and optical equipment, transport equipment, characterized by a significant length of the production chain. For engineering the share of trade in goods of intermediate consumption prevails as in the case of China and Russia, that speaks about existing potential industrial cooperation in this field with the selection of specialized niches, depending on national competitive advantages of the participating countries.

In table 4 the structure of Russia's export to its main foreign trade partners among OBOR countries is presented, we also include Mongolia in the analysis, because it is the country participating in the project of economic corridor Russia-Mongolia-China.

Table 4.

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

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

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

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%).

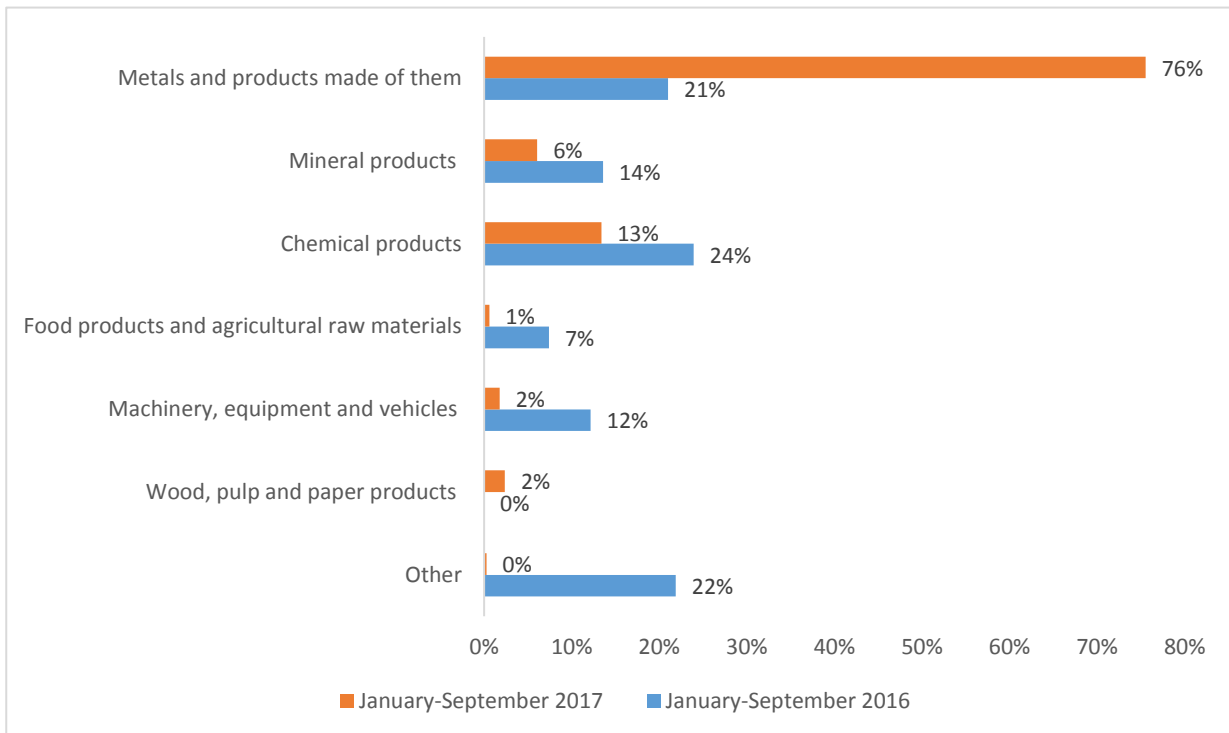
Russia imports from Mongolia mostly mineral products - 75% of the total volume of Russia's imports from Mongolia in 2016 (mostly it includes salt, sulphur, earths and stone, plastering materials, lime and cement); and food products and agricultural raw materials (19% in 2016). In the context of sanctions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

As we might see from table 3, the largest share of Russia's exports to OBOR-countries is mineral products or raw materials. The fine exclusion from this specialization – is the trade between Russia and Kazakhstan. In the structure of Russian exports to Kazakhstan in 2016 for a major share of supplies came in machinery, equipment and vehicles - of 22.68% of the total volume of Russia's exports to Kazakhstan, mineral products had to 16.77% of the total volume of Russia's exports to Kazakhstan. To explain the situation, we might mention the fact that Kazakhstan has large reserves of fossil fuels and metals (uranium, copper, zinc).

A fine example of an export basket with a higher share of new high-tech industries is the export of Sverdlovsk region in Russia to China was recently described by I. Turgel et al [25]. In 2016 the 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 was 22% (mainly ore (16%) as well as asbestos and stone).

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





**Fig 4.** The structure of exports from Sverdlovsk region (Russia) to China in 2016, 2017

Source: Compiled by the author according to the data from The Federal customs service of Russia, Ural branch [26]

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

So there is a strong specialization of Russian exports in the traditional sectors. And as it was discussed above, the latter may lead to the reduction of long-term economic growth of Russia in the conditions of the facilitation of open trade among OBOR countries in particular within the program for the creation of the economic corridor China–Mongolia–Russia. In the next section we discuss the instruments how to facilitate unimpeded trade within OBOR countries and minimize the risks of the reduction of economic growth.

#### **Opportunities for mutual benefit and win-win cooperation in international trade within OBOR countries**

To minimize risk of growth reduction dew to the recourses curse and avoid a high volatility of exports it is necessary to diversify the exports basket of Russian Federation.

In many respects the prospects for increasing industrial cooperation with partners depend on the competitive advantages of the economic players. To identify potential exports of key manufacturing industries for Russia and it's main trading partners among OBOR countries for each country we define the goods, the export of which it has a comparative advantage. For this we used the Balassa's index (RCA):

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

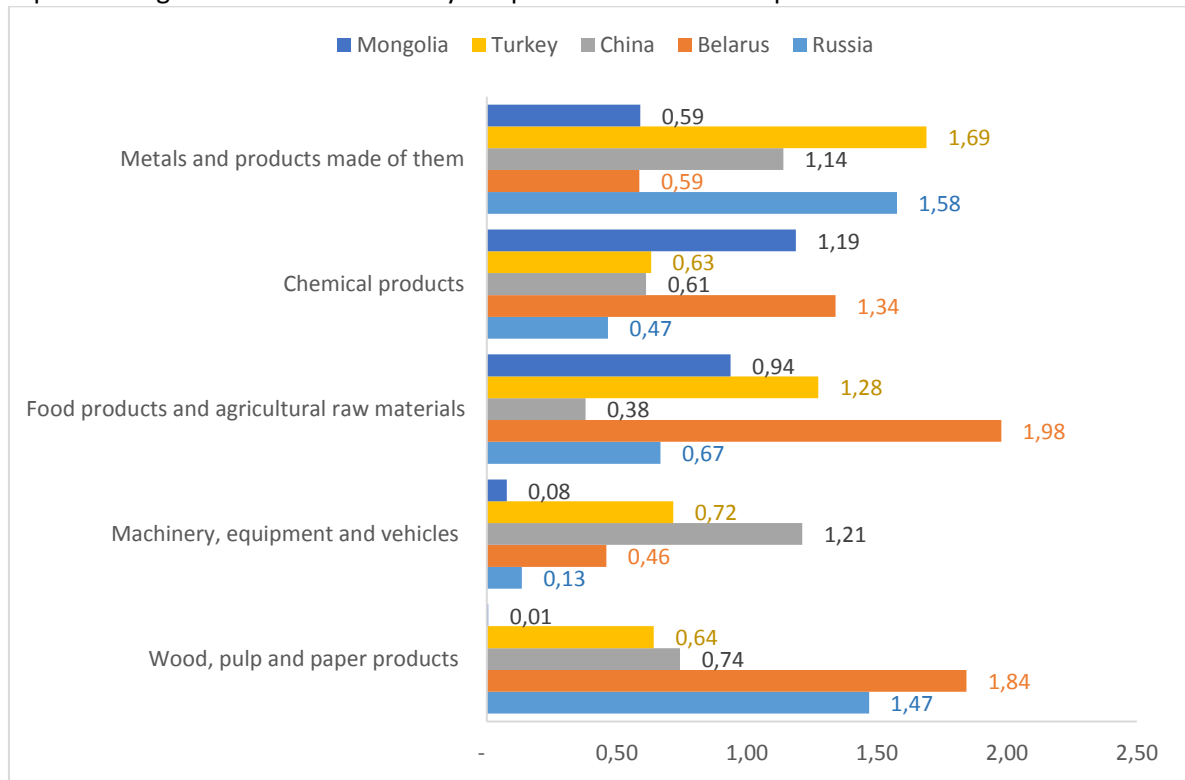
where  $x_{ji}$  – the value of exports of product  $i$  by country  $j$ ;  $x_j$  – the value of total exports of the country  $j$  (all products);  $x_i$  – the value of world exports of good  $i$  (all countries);  $x$  – total world exports (of all goods and all countries).



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 export basket of countries used two-digit codes of goods according to the classification SITC (Standard International Trade Classification). Data on exports of goods by countries of the world taken from the statistical base from ITC trade map for the year 2016.

Figure 5 presents the RCA indexes for five OBOR countries. The country has a competitive advantage in those products for which the RCA index is greater than one, i.e. when the country's share in the world market of this product higher share of the country's exports in total world exports.



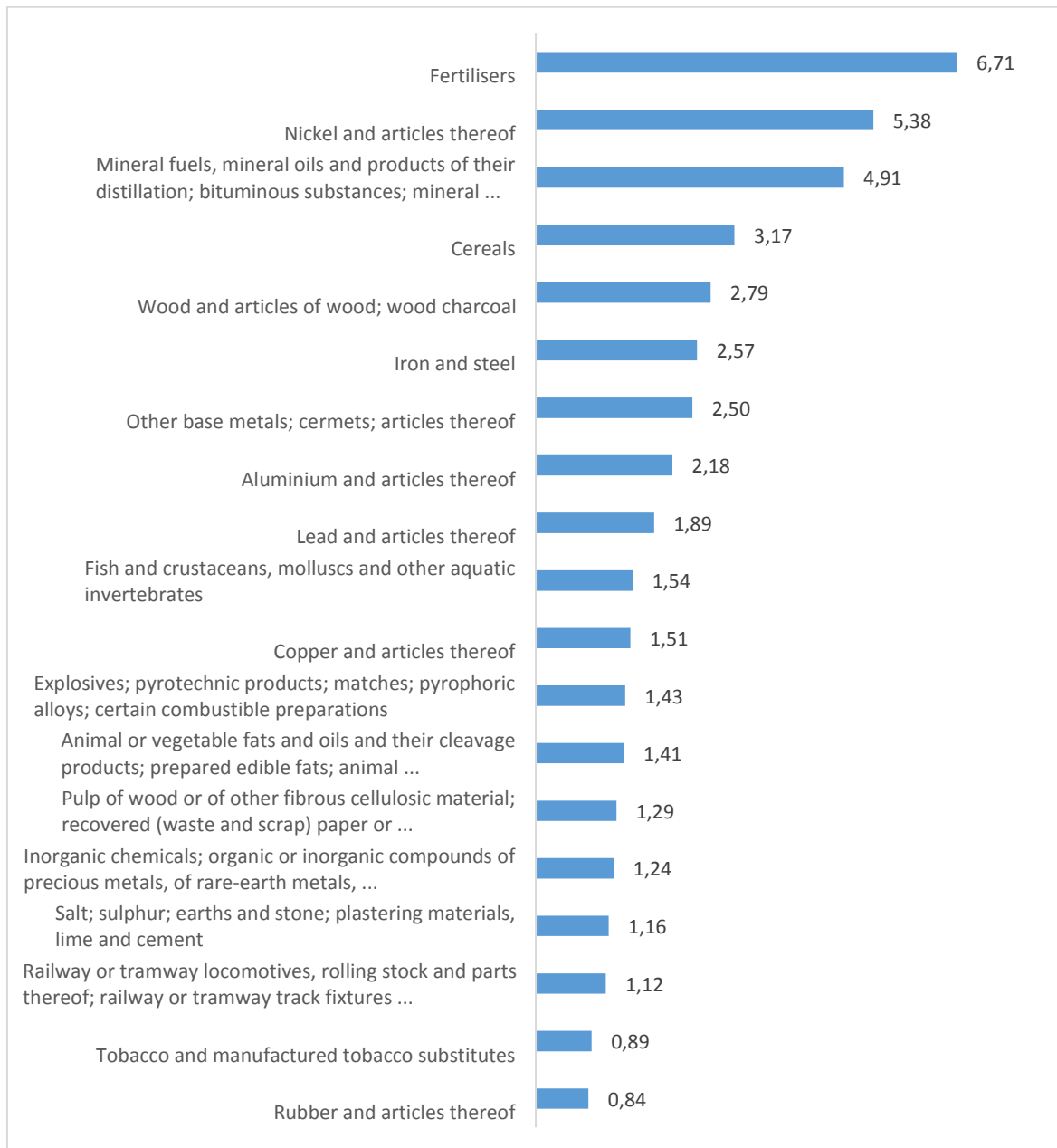
**Fig 5. Comparative competitive advantages of Russia**

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

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

To be more specific, and find more industries, which could diversify Russia’s export we compiled RCA index for more narrow product groups. Figure 6 shows the commodity groups in which the Russian Federation has a comparative advantage in the export of goods. The top-five industries (except mineral products) are: fertilizers, nickel and articles thereof, cereals, wood and articles of wood, iron and steel.

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



**Fig 6. Comparative competitive advantages of Russia**

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

Increasing the effectiveness of participation of sectors of the member countries of the economic corridor in CDS requires the development of economic policies, combining measures of tariff regulation with subsequent changes in the scope of non-tariff regulation, and a number of reforms concerning industrial policy, improvement of the institutional environment.

### Conclusion

Apparently, the globalization of world trade can facilitate growth, and to inhibit it. The latter is the case, if there is a fixing of specialization of developing countries in exporting raw materials. And this is a key challenge for Russia, in relation to participation in the OBOR initiative.

The current structure of Russia's integration into the world economy, and it's integration with China and Mongolia in particular, consists namely in the export of raw materials, and it does not correspond to the model of scientific-technical integration, which becomes the most significant in the context of globalization.

While Russia has a potential for development of this model due to the high level of education, availability of scientific personnel and development.

Today, there are a number of perspective directions of expansion of industrial cooperation and collaboration between the key players at OBOR, due to the nature of competitive advantages of the countries participating in the project. Russia has competitive advantages in the global markets of metallurgy, woodworking industry and can contribute to strengthening the role of Russian producers in the markets of the States of the OBOR and their further reach higher stages of CDS. In the case of engineering and manufacturing of transport equipment, identify the narrow specific niches of domestic producers and strengthening cooperation with the most competitive foreign partners can stimulate the development of the Russian mining industry.

It is possible to formulate a number of recommendations for economic policy of Russia in the conditions of integration into the world economy in the framework of the OBOR project.

First, to participate in the gains from globalization it is necessary to change the raw material orientation of the economy to the exports of the manufacturing industry, which is characterized by higher capital intensity and higher requirements for human capital, which creates opportunities for growth of welfare of the population. As one of the measures can be considered support for exporters of non-resource sectors. Providing exporters with packages of privileges and preferences, are particularly important in times of macroeconomic instability, able to ensure the expansion of non-oil sectors in the economy and the diversification of export activities in Russia.

Second, the 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 trying to attract the human capital by strengthening academic exchanges. Chinese government provides 10,000 scholarships to the countries along the Belt and Road every year. The use of such tool will enable China to successfully import leading young scientists from developing countries participating in OBOR. For Russia, this would be another reminder of the need to develop tools for reducing losses from 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, it is possible to introduce physical restrictions on the export of raw materials and products with low degree of processing from the country (in the form of quotas or rejection of the construction of additional export infrastructure).

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

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