One belt one road initiative in Central Asia: implications for competitiveness of Russian economy

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ABSTRACT

At the end of 2013, the Chinese government announced its intention to create the new strategic initiative called “One Belt One Road”, which includes a significant amount of countries from the Asia, the Middle East, the Africa and the Europe, and aims at the deepening of economic and security cooperation among participating countries. Furthermore, it covers the cooperation in the infrastructure. The initiative is now gaining its real shape, with the negotiations between potential participants being held between their highest political representatives. The total number of participating countries in not yet known, however, Belarus, Kazakhstan, Turkey, Thailand, Hungary, Spain and Russia are among many other countries, which have already confirmed their participation in the initiative. If successfully carried out, the project has a huge potential to influence international business flows, not only in Asia but also within the global economy.

Numerous projects that are already well under way include China's most important trading partners, namely Central Asian countries and Russia. Especially in case of Russia that is currently facing serious economic problems, it is quite uncertain whether this initiative would have positive or negative impact on its own competitiveness. While planned logistic platforms and transport corridors built in Central Asia could possibly lead to increase of mutual trade, construction of energy infrastructure projects in the same area could possibly harm Russian economy. The aim of this paper is to critically assess consequences of currently implemented projects on the Russian economy, and to look at perspectives of their further development.

Keywords: China, competitiveness, Russia, Trade Complementarity Index, Central Asia

JEL Classification: F63, F42, F53, F21

1 INTRODUCTION

The Silk Road Economic Belt and the 21st-century Maritime Silk Road initiative (OBOR) was introduced for the first time by the President of China, Xi Jinping, in Kazakhstan at the end of 2013. Over the period of only 3 years, OBOR gained a significant dimension, with numerous projects being already carried out.1 Many experts consider it as an essential part of China's global strategy, with its major aim being to assert China's economic positions on international markets and make the best use of country's comparative advantages. So far, there is no official document that would offer an exhaustive list of all the participating countries or inform about OBOR's long-term objectives, however, number of countries

taking part in initiative is constantly increasing. Systematic steps in the area of regional dislocations of the Chinese foreign direct investment, however, confirm that OBOR is quite systematized when it comes to time and location aspects of planned projects. Over 60 countries have already decided to become a part of this initiative. OBOR is a unique project – not only because participating countries are home to over 60 percent of world's population, generate approximately 30 percent of global GDP and possess three-quarters of total world's reserves of energy carriers, but also because it is the first initiative having a global impact on both, the functioning of global trade and the world order, which was initiated by developing country. An important feature of initiative is its orientation not only on trade but also on cooperation in education, culture, tourism, creative services and environmental protection.\(^2\) Projects of the construction and modernization of infrastructure span from the Chinese city of Xian, Central Asian countries (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan), Sri Lanka and Pakistan to Greece, Serbia, Germany, Hungary, Italy and the Netherlands. Initiative is of unprecedented nature also when it comes to regional diversity of participating countries (such as their political systems, economic and social stability, size, structure of the economy or religious beliefs of the majority of population).\(^3\)

OBOR also counts on active participation of Central Asian countries and Russia, with China considering these countries as her key partners and being well aware that implementation of OBOR would fail without their support. Currently, China seeks to achieve that the project is seen as beneficial for all participating countries. There are, however, several challenges and risks that may jeopardize its successful implementation. In this research paper, authors analyze the involvement of Russia and Central Asian countries in OBOR, assess economic justifications of this initiative based on the application of mathematical and statistical methods, and point out to endogenous and exogenous factors that have the potential to jeopardize successful completion of OBOR. In the conclusion, resulting implications for Russian economy are also highlighted by the authors.

1.1 Characteristics of OBOR

OBOR is a global project of enormous scope that includes countries from Middle East to Western Europe. In addition of the perspective of encouraging global economic growth, OBOR also brings along the possibility of accelerating and reducing costs of global trade in goods (e.g. transaction costs). Due to the construction of new and reconstruction of old transport corridors, it creates additional stimuli for developing countries that were initially considerably marginalized within the global trading system. Many analysts and several renowned magazines (The Economist\(^4\), The Diplomat\(^5\)) try to draw public's attention to OBOR's similarity with the Marshall Plan. The U.S. initiated project of postwar revitalization, that transferred approximately \$ 130 billion to the old continent was, nevertheless, far below the dimensions of OBOR, in which the current volume of

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anticipated investment estimates to more than $4 trillion, while its value in the future may still increase.\(^6\)

China already invests and builds institutional framework for OBOR. The Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (previously referred to as the BRICS Development Bank) will play an important role in initiative's implementation. OBOR, nevertheless, apart from utilization of public resources, also counts on significant involvement of private sector investors (e.g. HSBC, General Electric alebo KPMG). Furthermore, Chinese government has also initiated its intention to create the Silk Road fund.

While the EU and the US cannot agree on TTIP, China has successfully created free trade agreements (FTA) with five countries of by the US initiated economic bloc of TPP, and since 2005, China has an effective FTA with all ten countries of ASEAN grouping. These successes of Chinese economic diplomacy are notable also because both, the US and the EU, have failed to sign FTA with ASEAN even despite exhaustive negotiations that have been lasting for numerous years.\(^7\)

OBOR reduces reliance on traditional trade routes that are plagued by security risks, such as terrorism, piracy and the threat of war due to territorial claims by particular countries. It should be pointed out that initiative is designed to primarily reflect interests of the initiator, which is China, but it has the potential to generate benefits for all countries of the global economy. Through OBOR, China in addition to acquiring the demand for her significant production surpluses (e.g. cement, steel, aluminum) and ensuring of low unemployment rate that would be sustainable in the long-term, also seeks to enhance international acceptance of the RMB as the world’s reserve currency and intensify its use in international payments for goods and services. Furthermore, initiative also generates economic opportunities for the Chinese companies, in areas such as the design and construction of various infrastructure projects. Vast majority of contracts concerning the construction of road and energy infrastructure, in which China is a major investor, are currently contingent upon the use of material inputs (e.g. raw materials, machinery) from China, contracting with Chinese business partners, and the employment of Chinese labor force.\(^8\)

Additionally, OBOR also gives Chinese companies the opportunity to avoid the increasing regulatory requirements for environmental protection in their country by shifting their manufacturing abroad. Initiative also creates a basis for the revitalization of Hong Kong that is set to serve as a center for collecting and securing financial means for the whole project. Of a considerable importance for OBOR, are also Hong Kong's legal and judiciary systems, which were established during the period when Hong Kong was under the British rule.\(^9\)

Provided that OBOR would function as intended, all participating countries would be beneficiaries of economic as well as non-economic benefits it would generate. Thus, the absence of particular country could potentially threaten its own competitiveness and bring it to the relative economic isolation. It can be, therefore, assumed that Russia and Central Asian countries will try not to miss out opportunities, which initiative brings. In addition to

\(^6\) Brian Wang, ‘China's One Belt One Road is an attempt to physically and economically unify Europe and Asia and $890 billion in deals are a start’ New Big Future Inc. available at <http://nextbigfuture.com/2016/06/chinas-one-belt-one-road-is-attempt-to.html> (22 May 2016).


participating in OBOR, China, Russia and Central Asian countries are linked together also by a project of security cooperation that is embodied in organization named the Shanghai Cooperation Organization, which was established in 2001. \(^\text{10}\) Russia regards Central Asian countries as her priority area of interest, based on economic, historical and cultural ties. It is, therefore, understandable that Russia insists on her dominant position in the region and regards OBOR as a threat that mitigates the county's importance in this geographic area. In the meantime, Russia's political leaders are trying to devise a strategy that would allow country to secure its power in the region, while benefiting from active participation in the initiative. Russia, as the largest country in the world, owns natural resources and technologies that are essential for OBOR. Country also possesses a strong army and military bases in majority of Central Asian countries. Additionally, Central Asian countries have considerable raw material resources that China urgently needs with their strategic location also making the whole realization of OBOR practically impossible without their participation.

2 METHODOLOGY

In order to fulfill objectives of this research article, various theoretical research methods have been used, with the most important ones being the method of abstraction, analysis, synthesis, induction and deduction. At the same time, numerous empirical methods have been applied, particularly the method of comparison that was used to compare trade flows between China and Russia and the Central Asian countries, and of a significant importance was also the calculation of Trade Complementarity Index (TC) for these countries. For getting a more comprehensive insight into developmental trajectories of foreign trade relations, special methods and techniques, such as exact or graphic display, have been used. Main sources of information and data for the research have been books, scientific publications and professional journals (e.g. The Economist, Forbes, Bloomberg or Fortune). Statistical data for the calculation of TC have been obtained from statistical system UNCTADstat. Remaining data have been extracted from databases of the World Bank and Transparency International.

2.1 Method of calculating of Trade Complementarity Index

Trade Complementarity Index (TC) measures the extent to which the two countries are 'natural trading partners'. Index was developed by M. Michaely (1996) and testifies about the extent to which total exports of one country matches with what the other country imports. The advantage of TC is that it is able to identify complementary sectors in foreign trade regardless of whether the trading takes place directly between compared countries. As defined by Michaely:\(^\text{11}\)

\[
e_{ij} = 100 \left[ 1 - \sum \frac{|m_k^i - x_k^j|}{2} \right]
\]

with \(x_k^j\) being share of product \(k\) in the global exports of country \(j\) and \(m_k^i\) being share of product \(k\) in the global import of country \(i\).

Value range of TC spans from 0 to 100. Given that:

- \(c_{ij} = 100\) - import/export shares of particular countries absolutely match

\(^{10}\) only Turkmenistan is not a part of the SCO from all the Central Asian countries.

- $c_{ij} = 0$ – mutual import/exports shares of particular countries are zero so no goods are exported or imported.

3 ROLE OF RUSSIA, CHINA AND CENTRAL ASIAN COUNTRIES IN OBOR

Even despite relatively positive economic development (represented in Table 1), Central Asian countries suffer from lack of financial means that are crucial for the realization of their own development goals. Thus, the need for obtaining external financing is obvious. In this regard, focusing on China has become essential for Central Asian countries, because Western "democratic" powers currently face their own economic and geopolitical challenges and have a little interest to enter new contracts with developing countries. Furthermore, even if there would be a willingness to conclude new contracts, Western powers always try to incorporate additional conditions into these contracts, and developing countries are not being able or willing to fulfill them. Another pressing issue is economic dependence of Central Asian countries on Russia, which makes them suffer due to declining value of the ruble and prevailing sanctions. Furthermore, of no insignificant importance when it comes to current economic development of Central Asian countries, are present low global prices of energy carriers and other raw materials, which represent a significant portion of by these countries exported goods. Therefore, Central Asian countries are shifting the attention of their foreign trade activities and diplomacy to China.

Table 1 Selected economic indicators of China, Russia and Central Asian countries

<table>
<thead>
<tr>
<th></th>
<th>KAZ</th>
<th>UZB</th>
<th>KGZ</th>
<th>TKM</th>
<th>TJK</th>
<th>RUS</th>
<th>CHN</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth (%) - 2015</td>
<td>1.2</td>
<td>8</td>
<td>3.47</td>
<td>6.5</td>
<td>4.2</td>
<td>-3.73</td>
<td>6.9</td>
</tr>
<tr>
<td>Inflation/deflation (2015)</td>
<td>-0.89</td>
<td>8.68</td>
<td>2.18</td>
<td>-1</td>
<td>1.85</td>
<td>7.68</td>
<td>-0.45</td>
</tr>
<tr>
<td>Public Debt to GDP - % (2015)</td>
<td>14.5</td>
<td>8.6</td>
<td>50</td>
<td>14.3</td>
<td>28.4</td>
<td>16.5</td>
<td>41.8</td>
</tr>
</tbody>
</table>

*abbreviations used in table as follows: KAZ – Kazakhstan, UZB – Uzbekistan, KGZ – Kyrgyz Republic, TKM – Turkmenistan, TJK – Tajikistan, RUS – Russia, CHN – China.

Source: processed by authors based on data from the World Bank, Transparency International and Global Finance (2016).

This situation begins to be an issue for Russia as well. Country suffers from imposed sanctions and low world oil prices, which make it unable to realize development objectives without the use of external funding. As a result, Russia's reliance on the support of China is constantly increasing.

3.1 Russia's role in OBOR

At present, Russia is plagued by serious economic problems that are caused by low oil prices, weakening ruble, and economic and political sanctions that have been imposed by the Western powers in order to penalize Russia for her involvement in the Ukrainian conflict. In particular, Russia's relations with her traditional and yet extremely important trading partner, the EU, are currently hit by the crisis. However, mutual dependence of both partners is still relatively high. Just as the EU is dependent on energy imports from Russia, Russia is dependent on revenues that are generated by her export of oil and gas to
the EU. Prevailing sanctions, undoubtedly, harm mutual trade between these two partners. Although the EU is now plagued with many internal and external problems, the situation in Russia is much worse. It seems that there will not be any solution to current situation regarding the Ukrainian conflict in the foreseeable future. Russia is therefore trying to find new markets for her exports and strengthen its relations with partners from territories outside of the EU. Thus, the strengthening of relations with China seems like a natural and logical step for Russia, given current conditions.\textsuperscript{12}

**OBOR initiative** has been met mostly with earnest welcoming from the Russian political representatives. Minister of East Development, A. Galuška, described the Chinese idea to restore the Silk Road as a great one.\textsuperscript{13} At present, Russia aims to modernize the Trans-Siberian Railway, which could be later interconnected with the Chinese railways. In September 2014, the Chinese government announced that it will invest $ 27.7 billion in the construction of railway lines in the northeastern province of Heilongjiang. The new railway will lead toward the Russian border with the prospect of connection to the Trans-Siberian Railway. It has to be pointed out that the completion of such a project would create a transport revolution. The fact, nevertheless, is that due to lack of funds in the Russian economy, Russian financial contributions in the project are currently only marginal when compared to those of China, and the modernization of Trans-Siberian is already delayed as a result.\textsuperscript{14}

In 2015, Moscow and Beijing signed a Memorandum of Understanding, which set up the Russian-Chinese economic alliance aimed at the strengthening of cooperation between these two partners, thus creating the framework for OBOR.\textsuperscript{15} Even despite relatively warm response to OBOR from the Russian side, there have been a series of well-grounded arguments that question the feasibility and appropriateness of the initiative. According to Remington, it is particularly questionable whether Russia would be able to maintain her influence in Central Asian countries after China executes her massive investments in this geographic area. Another pressing issue is the sustainability of Russia as a “raw-material appendage” of China.\textsuperscript{16}

### 3.2 Role of Central Asian countries in OBOR

Not only Russia, but also Central Asian countries have high ambitions in OBOR. Chinese President Xi Jinping expressed the idea to restore the old Silk Road during his official visit of Kazakhstan in 2013. This former Soviet country is geographically an ideal junction between China and the West and its interest in OBOR is indisputable – with Kazakh government already being involved in the construction of corridor “Western China -


\textsuperscript{13}Formerly 6,400 km long road connecting eastern powers of China and India, with Persia and the Mediterranean Sea. During period of its functioning, cultural and technological exchange had reached enormous pace and volumes. However, if the current route would be the same area as before, it would bypass Russia and lead, in fact, to much southern areas. Russia, therefore, makes great efforts to become part of the initiative.


\textsuperscript{16}Remington, T. ‘One Belt, One Road, One Eurasia’ China Policy Institute available at <https://cpianalysis.org/2016/04/06/one-belt-one-road-one-eurasia/> (14 July 2016).
Western Europe” and working to link country's rail network with those of Iran and Turkmenistan.

Kazakhstan intends to become the largest Central Asian hub, thus displacing Russia from its current position. Russia, however, has a chance to become the focus of China's plan to build the northern corridor of the Silk Road – the one, which would lead through Kazakhstan to St. Petersburg, the Baltic Sea, Belarus, and Poland, up to Berlin. China is already a significant investor on the Kazakh market of energy carriers, where she owns PetroKazakhstan – the company that controls the second largest volume of oil reserves in the country.\footnote{Runde, D. ‘Kazakhstan: The Buckle In One Belt One Road’ Forbes available at <http://www.forbes.com/sites/danielrunde/2015/06/29/kazakhstan-buckle-one-belt-one-road/> (17 July 2016).} Kazakh uranium reserves (Kazakhstan owns 12 percent of world's reserves of uranium), on the other hand, are still owned by Russia and there is no indication that Russia would intend to give them up in favor of China. Despite the obvious drawbacks (e.g. size, limited access to the sea, the absence of large ports and economically weak neighbors) Kazakhstan has the ambition to become the Singapore of Central Asian region. Not only Kazakhstan but other Central Asian countries also, are exporters of minerals, with an important role of natural gas. So far, OBOR has received enthusiastic and warm response from governments of Central Asian countries. All five countries are presently trying to align their economic development strategies with the outline of a new Silk Road, in a wide range of areas stemming from modernization of industry, to improvement of energy security and integration of trade activities.\footnote{Zhao, H. ‘Different Perceptions of China’s “One Belt One Road Initiative’ Ipp Review available at <http://ippreview.com/index.php/Home/Blog/single/id/60.html> (01 August 2016).} In 2014, the value of mutual trade between China and Central Asian countries was for the first time in history more than value of China's trade with Russia. It must, however, be noted that pipelines transporting natural gas from Central Asian countries to their intended destinations, are mostly owned by Russia's Gazprom and bearing this fact in mind, any significant shift from orientation of these countries on Russia cannot be expected.

4 ECONOMIC ANALYSIS OF INTERNATIONAL TRADE BETWEEN RUSSIA, CHINA AND CENTRAL ASIAN COUNTRIES

In order to acquire better understanding of implications stemming from the functioning of OBOR in the future, it is necessary to be aware of the present, as well as historical development of foreign/international trade of Russia and Central Asian countries with China. On the basis of bellow listed graphs, authors will show an upward trend in foreign trade between examined countries during the period of last 15 years, and prove the economic sense of OBOR initiative.

4.1 Foreign trade between China and Russia

Graph 1 shows the development of foreign trade between China and Russia between 2000 and 2015. During this period, the average growth rate of foreign trade turnover was 18.1 percent. Chinese exports to Russia grew by an average rate of 25.8 percent and imports from Russia to China at average rate of 14 percent. The exception from the above stated development trends of foreign trade, were only years 2008 and 2009, when the world's economy was strongly hit by the global financial crisis. In 2015, there was a relatively sharp decline in foreign trade, which is a result of the current economic crisis in Russia and slowing pace of economic growth in China. When it comes to assessment of foreign trade
between the EU and Russia in financial terms, however, there are two important factors that have to be kept in mind - fluctuations in global oil prices, and devaluation of the Russian ruble. Spot price of Brent Crude was still approximately 110 USD/bbl at the beginning of 2016, however, its average spot price in August 2016 was below 50 USD/bbl\(^{19}\). Such a striking price change is automatically reflected also in value of bilateral trade. Subsequently, decline of oil prices and the associated decline of prices of other energy carriers have detrimental impact on the Russian economy and lead to depreciation of ruble. The Russian economy is highly dependent on crude oil with almost half of national budget revenues, 70 percent of total export revenues, and 25 percent of GDP, being generated by exports of energy carriers.\(^{20}\) The weakening of the Russian economy due to the decline of oil prices puts pressure on the devaluation of ruble.\(^{21}\) This means that Russian consumers have to spend more rubles, if they want to maintain their previous level of expenditure. At the same time due to the depreciation of the ruble against the euro, Russia's imports from the EU have become significantly more expensive, which is also reflected in the drop in the volume of mutual trade.\(^{22}\)

**Graph 1 Foreign trade between China and Russia (2000-2015)**

The largest portion of China's exports of goods to Russia in 2015 (according to the SITC classification) was the group 8 – Miscellaneous manufactured articles. Share of this group on total export accounted for 37 percent with the most traded articles being clothing and footwear. Significant part of Chinese exports also belonged to group 7 – Machinery and transport equipment, with share of 33 percent. Most important articles in this group were

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\(^{19}\) ‘Crude Oil Brent Chart’ Oil Price available at <http://oilprice.com/commodity-price-charts?q=CB1&npage=chart&nrows=100> (04 August 2016).


telecommunication apparatus and automatic data processing machines. With share of 17 percent, of significant importance when it comes to Chinese exports, was also group 6 – Manufactured goods, with most traded articles being manufactures of base metal, and textile yarn and related articles. On the other hand, Chinese imports are less diversified than exports of this country. Undoubtedly, the most significant group when it comes to the Chinese imports in 2015 was 3 – Mineral fuels, lubricants and related materials, with share of 61 percent. Most traded items in this group were mineral fuels and coal and there has also been an increased importance of natural gas over the course of recent years. The second largest group of Chinese imports was group 2 – Crude materials, inedible, except fuels, which accounts for 16 percent of total China's imports. Within this group, the largest proportion of trade was with timber, iron ore and ores and concentrates of base metals. Of striking importance when it comes to China's imports from Russia was also group 6 – Manufactured goods (11 percent). Within this group, nickel and copper were traded the most.

Based on brief but yet comprehensive overview of the commodity structure of foreign trade between China and Russia, it can be concluded that while China's exports to Russia are quite diversified and comprise trading with some goods of higher added value, this situation is exactly the opposite when China's imports from Russia are concerned. Imports of China are primarily focused on importing of energy carriers, minerals, and raw materials. Based on analysis of commodity structure of foreign trade, it is obvious that main drivers of mutual trade between Russia and China, are especially enormous mineral reserves of Russia, which China's economy needs in order to meet its domestic demand. Nevertheless, they may not be sufficient for Russia, if country wants to maintain its current level of global competitiveness, especially given the scope of OBOR. Insight into the extent to which the overall demand and supply of the concerned countries match, is therefore important and had been acquired by applying TC index.

**Graph 2 Trade Complementarity Index of China and Russia (2000 – 2015)**

![Graph 2](image)

*Source: processed by authors based on data from UNCTAD (2016)*

In order to obtain better understanding of mutual trade of assessed countries, authors calculated TC index for period of 16 years (2000 – 2015). Based on calculations whose results are depicted in the graph 2, it can be stated that when trade complementarity is
concerned, Russia is becoming increasingly interesting market for China. TC reached its historically highest value (56.9) in 2015, when supply of Russia in the demand from China is concerned, and is growing from a long-term perspective. However, supply of China in Russian demand match in significantly lower extent (29.6; 2015). The index value has been oscillating at around 30 in the long-term. Based on analysis conducted by authors, it can be concluded that currently, Russia is able to maintain her competitiveness and secure a stable position in relation to China. The main reason for this situation are mineral resources that Russia possesses. Questionable, however, is whether competitiveness based on these premises could be of sustainable nature in the long-run.

4.2 International trade between China and Central Asian countries

International trade between China and Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan is of quite turbulent nature, with periods of relatively high pace of growth of international trade being replaced by periods of very low growth. Between 2002 and 2008, the average growth of international trade turnover was 54 percent. Drop in turnover in 2009 was caused by the global economic crisis. From 2010 until 2013, international trade between these countries was growing at double-digit rates, with the average growth being 21 percent. Since 2013, however, there has been a significant drop in international trade between China and Central Asian countries.

Among all Central Asian countries, Turkmenistan is China's largest business partner with bilateral trade between the two reaching more than $15 billion in 2015. Kazakhstan was the second largest trading partner for China in this region ($14.2 billion) in 2015, followed by Kyrgyzstan ($4.3 billion), Uzbekistan ($3.4 billion) and Tajikistan ($1.8 billion).

Graph 3 International trade between China and Central Asian countries (2000 – 2015)

The total volume of Chinese exports to Central Asian countries accounted for $17.6 billion in 2015. Based on the SITC classification, over 38 percent of exported goods belonged to group 8 – Miscellaneous manufactured articles, with majority of exported
goods being footwear and furniture. The second largest share of Chinese exports, had group 7 – Machinery and transport equipment with most traded articles in this group being electrical machinery, apparatus and appliances, parts, and accessories of vehicles, heating and cooling equipment and telecommunication and sound recording apparatus. Group 6 – Manufactured goods, accounted for 25 percent of Chinese exports to Central Asian countries, with textile yarn, cotton fabrics, and manufactures of base metal, being the most traded goods. Similarly as in the case of Russia, the Chinese imports from Central Asian countries were dominated by Commodity Group 3 - Mineral fuels, lubricants and related materials, with a share of total imports accounting for over 67 percent. Majority share in this group belonged to imports of natural gas. Group 6 – Manufactured goods, accounted for 13.7 percent of the Chinese imports, with the most traded goods in the group being copper, pig iron and zinc. An important part of the Chinese import constituted also group 5 – Chemicals and related products, with the share of 12 percent. Almost entire group was represented by radio-actives and associated materials that account for 97 percent of traded articles.

Commodity structure of international trade between China and Central Asian countries is similar to that of Russia. Exports of China are again more diversified than her imports, and imports focus mainly on mineral and energy resources. The volume of trade with Central Asian countries is significantly lower than that of Russia.

**Graph 4 Trade Complementarity Index for Central Asian countries and China (2000 – 2015)**

The values of TC are slightly growing from the long-term perspective. This development indicates that these countries are becoming more of natural trading partners. In 2015, TC reached the value of 49.8 for supply of Central Asian countries in demand of China, with its value for supply of China in demand of Central Asian countries being 26.3. This occurrence is again parallel with the situation of Russia – supply of Central Asian countries is of a better match with the Chinese demand, than it works the other way around. Of vast importance in mutual trade between these partners are again, raw materials and minerals.
possessed by Central Asian countries, which China needs in order to secure uninterrupted functioning of her own economy.

5 CONCLUSION

OBOR entails a significant number of challenges and its successful implementation will require active engagement of all participating countries. One of major risks that can paralyze this initiative, is the fact that although, China has a considerable financial reserves (foreign exchange reserves of $ 3.2 trillion), her pace of economic growth is constantly slowing down, and there are various social and demographic problems that have the potential to distract future's attention of her political leaders from externally directed initiatives towards tackling internal development problems. Moreover, when giant projects of OBOR's scope are concerned, transparency, effectiveness of spending, and distribution of acquired financial means, are also important issues that could determine whether project will succeed or fail. In OBOR, they are even more crucial as initiative counts with participation of many countries with a weak judicial system, high levels of corruption and unstable governments. All these factors may cause that funds allocated by China will not serve the purpose for which they were originally intended. American Enterprise Institute estimated financial losses of the Chinese infrastructure projects that were carried out between 2005 and 2014, of up to approximately $ 246 billion.23 It is thus, questionable whether China, in current turbulent conditions, would have enough will and finances to carry the whole project to a successful completion. Except previously stated challenges, OBOR's success is also under threat of numerous other challenges, with the most striking ones being territorial disputes in the South China Sea, pirates, terrorism, separatism and anti-Semitism in the Central Asian countries, absence of market principles in the evaluation of infrastructure projects, and possible changes in political regimes, which may subsequently opt-out from already agreed projects.

Provided that China, Russia and Central Asian countries would manage to overcome these pitfalls, OBOR could become a success story, not only for involved countries but for all countries of the global economy. Development of economic indicators, values of TC calculated by authors, and geopolitical situation, indicate that trade between China and Russia as well as China and Central Asian countries, will continue to grow, which is also caused by the fact that these countries are natural trading partners. Although, there is an obvious dominance of China in mutual trade between these countries, the importance of Russia's role in maintaining of stability of the whole region is undeniable. Russia and Central Asian countries, however, need to realize that if they want to maintain long-term sustainable position in mutual trade relations with China, they will have to shift the orientation of their trade from energy carriers to the production of goods and services of higher added value. Given the assumption that they would fail to do so, their role in OBOR could be marginalized with them serving only as suppliers of raw materials for China. On the other hand, China needs to recognize that Russia plays irreplaceable role in Central Asian region, especially in terms of security and stability, and also shares common history and cultural similarities with these countries. Of enormous importance in OBOR's success would be also the support from Russian political representatives who would have to decide whether they would consider initiative as the threat for Russia's position in Central Asian region and the world, or as an opportunity for improvement of her trade and diplomatic relations that reach far beyond traditional areas of Russian interests. Significant

business potential for Russia, for instance has the ASEAN, with which China already has an effective FTA - Russia's foreign trade with this grouping is, however, still relatively low. Furthermore, in the process of implementing OBOR, Russia could also acquire Chinese know-how concerning the construction of railways and transport routes.

Provided that Russia, China and Central Asian countries would overcome prevailing distrust in mutual relations and would align their national development strategies with OBOR, the initiative has good prospects to permanently change the character of global trade flows and can generate considerable and long-lasting benefits for participating countries, ranging from higher export revenues, to improvement of mutual (not only business) relations, among numerous others.

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