

# Prospects for the Regional Cooperation in Central Asia

**Nurlan Aitkaliuly NURSEIT\***

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## **Abstract**

*The purpose of the article is to study the regional cooperation of the countries of Central Asia (CA) among themselves and with other regions, as well as finding ways to improve it. The study revealed that regional cooperation is still at a low level. Significant trading partners of Central Asia are currently the EU, China, Russia, and Turkey. The participation of the countries of the region in the Eurasian Economic Union (EAEU) and the Chinese "Belt and Road" initiative (BRI) did not lead to the expected results. The observed decline in trade in Central Asia is associated mainly with a decline in world prices for raw materials and not a change in physical volumes.*

**Keywords:** BRI, Central Asia, Eurasian Economic Union, EAEU, trade.

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\* Associate Professor, Faculty of Economics and Law, Kazakh-American University, Almaty, Kazakhstan.  
Email: [n.nurseit@gmail.com](mailto:n.nurseit@gmail.com)

## 1. Introduction

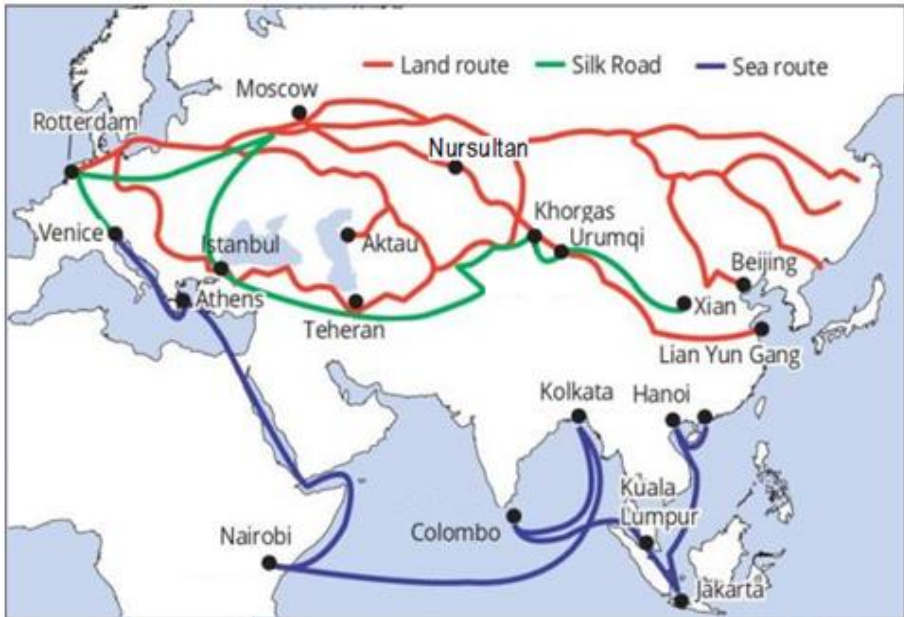
Currently, regional cooperation in Central Asia (CA) is at a low level. It has basically the form of bilateral agreements between the countries of the region. The level of mutual trade and investment is low. The countries of the region are much more actively cooperating with countries outside the region than among themselves. This is due to the fact that the region is interesting for the leading world and regional powers of the world, such as the USA, EU, China, Russia, Iran, India, and Pakistan, in terms of the availability of rich natural resources, primarily energy, as well as a unique geopolitical position in the centre of Eurasia (Gussarova, Aminjonov, & Khon, 2017; Kang Peng, Zhu, & Pan, 2018). For this reason, these powers not only trade with the countries of the region but also invest in its development. However, this does not always correspond to the interests of the region, since other powers are primarily interested in rich resources and sales markets for their products, but not in the development of the region itself. Therefore, the purpose of this article is to study the level of current cooperation of the countries of CA among themselves and with other regions, as well as ways to establish closer cooperation. The following hypotheses are tested in this paper: 1) the level of mutual trade in CA is now low; 2) China, Russia, EU, Turkey, and Iran are important trading partners for the countries of CA; 3) Initiated by Russia, the EAEU and the Chinese BRI well contribute to the growth of mutual trade in CA; 4) CA is an important trading partner for China, Russia, Turkey, and Iran; 5) the fall in the value of exports of CA is due to the decline in world prices for raw materials, not volumes. It also identifies the ways to enhance cooperation between the countries of the region.

The remainder of the paper is organized as follows: a review of literature, research methodology, research results, conclusion, and list of references.

## 2. Literature Review

The study by Gussarova et al. (2017) compares two major initiatives and two regional powers — Russia and China, namely, the EAEU and the BRI, which directly affect the interests of CA (Figure 1). Even though both initiatives provide for the development of cooperation with the countries of CA, they do it in completely different ways. The EAEU is an international organization with its own administrative apparatus, and the BRI initiative is an investment program based on bilateral agreements. Russia is promoting trade with the CA region, using the existing transport infrastructure, supported by a duty-free regime. China, in turn, invests heavily in the construction of new transport roads in order to gain access to European markets and connect its western regions with CA.

Central Asia can benefit from both initiatives as it represents landlocked countries (Kurmanalieva, 2008), remoted from major global markets and with small domestic markets (Tai & Lee, 2009). However, in order to be able to fully utilize the benefits of using both initiatives in their own interests, the states of CA must first create their own system of regional cooperation (Gussarova et al., 2017).



**Figure 1. China's Belt and Road Initiative (BRI)**

CA is an important component of China's BRI, which is of extreme importance to it as part of global energy security and overcoming the so-called Malacca dilemma. CA can help China reduce its energy deficit in Xinjiang by importing hydro power generated in Tajikistan and Kyrgyzstan. Although the contribution of CA to global energy security is small, it plays an important role in the context of diversifying its energy industry (Duarte, 2019). Considerations to ensure the safety of the economy from the sea blockade, force China to put up with the unprofitability of the land route, which is twice as expensive as the sea route since it is fully loaded only in one direction. Today, most railway routes in the framework of the BRI function only due to subsidies to the Chinese government (Hart-Landsberg, 2018). The BRI can also weaken the root cause of terrorism and help stabilize CA (Hali, Shukui, & Iqbal, 2015). China sees this initiative as a way to find new markets, reduce the imbalance of economic development between its coastal provinces and poor areas, and maintain national stability (Yang, 2016).

Ferdinand (2016) believes that China hopes using the BRI to make the EU's economy gradually more dependent on China and less dependent on the US. This will allow China to "remake the world," where China will play a dominant role. The initiative is based on the assumption that other partners will actively participate in its implementation with their own resources and capabilities. Without this participation, the project is doomed to non-existence. China itself does not have such huge resources to pull the project alone. Therefore, it strives with all its strength to convince other countries that the project is attractive. The input is any means of

advertising, image, diplomatic, and economic measures. The network of logistic facilities of this project (ports, roads, warehouses, etc.) can have a dual - civil and military purpose in order to ensure China's economic and military invulnerability in a possible confrontation with the US (Chatterjee, 2018). This also applies to infrastructure facilities (roads, tunnels, bridges, pipelines, etc.) being built-in CA.

Suvankulov and Guc (2012) analysed exports to Central Asia for 1996-2009 using an augmented gravity model. They concluded that China and Turkey were the most successful, and Russia was less successful in terms of exports to CA. Exports from India and Iran grew slightly compared to their export potential.

### **3. Data and Methodology**

The data source used was the Trade MAP database of the International Trade Centre (ITC) at the United Nations. The use of data from this database made it possible to find export and import, even for those countries of CA where there was no complete data for some years. The Trade MAP database allows forming missing data by using mirror data for partner countries, since the export of any product from one country is always an import of the same product for another country, and, conversely, the import of a product from one country is an export of the same product for another country. Therefore, in the absence of data on exports (imports) for one country, they can be calculated based on the mirror corresponding imports (exports) of another country where such data are available.

However, it contains data on types of products for export and import, but their physical volumes are missing. Therefore, to find changes in the physical volume of exports, we divided the change in the value of exports by the change in the price index. Since the export of CA is represented mainly by raw materials that are traded goods, we used the World Bank Commodity Price database for world prices on raw materials. Data presented in real US dollars of 2010 have been adjusted for inflation in US dollars, according to the US Department of Labour database, to obtain nominal prices.

The above hypotheses were tested by calculating changes in absolute and relative indicators of foreign trade between countries.

The current level of regional cooperation was checked based on the calculation of the share index of mutual trade.

To assess the importance of foreign countries as trading partners, we used the indicator of the share of the trading partner in the total trade of the country (region). This indicator shows how much a country (region) is interested in cooperation with a foreign country (countries), to what extent this trade is economically significant for a given country (region).

To assess the importance of regional trade for foreign countries, an indicator was used - the share of trade with this region in the total trade of the countries - major

trading partners. This indicator shows the importance of foreign trade with a given country (region) for a foreign country (countries), as far as it is significant for a foreign country (countries).

The share of reciprocal trade was calculated as the volume of reciprocal trade in the total trade of a particular country or region. This indicator shows the actual role of reciprocal trade for a particular country or region. The following scale was used to assess the importance of trade with a particular country (region):

Intervals	up to 1%	from 1% to 5%	from 5% to 10%	from 10% to 30%	from 30% to 40%	from 40% to 50%	from 50% to 60%	over 60%
Importance	insignificant	very low	low	below average	average	above average	high	very high

The share of the trading partner in the total trade of the country (region) shows the importance of trade with a foreign country for a country or region. Here a similar rating scale was used for the previous indicator. The calculations were carried out separately for import and export.

The indicator of the share of regional trade in the total trade of the countries - key trade partners, was calculated as the share of trade of the given country (countries) of the region in the total trade of foreign countries of the partners. To assess the importance of trade with this region for foreign partner countries, a similar rating scale was used, as for the previous indicator. The calculations were carried out separately for import and export.

The disadvantage of the above indicators is that they show the level of regional trade, as well as its importance for both countries of the region and foreign partners in statics, not in dynamics. To assess changes in the level of regional trade over a certain period, the difference between the values of these indicators for this period of time was calculated.

For research purposes, the concept of Central Asia (CA) was used in work, which includes Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

## 4. Research Results

### 4.1. Assessment of the Current Level of Regional Cooperation

The current level of regional cooperation in the countries of CA remains low. For the 2014-2018 year, the volume of mutual trade remained virtually unchanged (Table 1). At the same time, the total volume of trade in the countries of CA in terms of US dollars during this period decreased by approximately 21%. This led to an increase in

the share of mutual trade in the total trade of CA countries from 5.6% in 2014 to 7% in 2018, or almost 1.26 times.

**Table 1. Dynamics of mutual trade in CA in 2014-2018**

	2014	2015	2016	2017	2018*	Growth, %
Mutual trade in CA, billion USD						
Export	5.0	3.5	3.3	4.2	5.0	+0.7
Import	4.9	3.7	3.7	4.3	4.9	-1.2
Turnover	9.9	7.2	7.0	8.5	9.9	-0.3
Total trade volume in CA, billion USD						
Export	101.8	64.9	54.7	67.8	81.1	-20.3
Import	74.6	55.4	47.5	53.0	58.9	-21.0
Turnover	176.4	120.3	102.	120.8	140.0	-20.6
Share of mutual trade of countries in CA, %						
Export	4.9	5.4	6.0	6.2	6.2	+26.4
Import	6.6	6.7	7.8	8.1	8.3	+25.0
Turnover	5.6	6.0	6.9	7.0	7.0	+25.6

Source: Author's calculations based on the ITS, 2018, \*Note: a preliminary assessment

The low share of reciprocal trade between the countries of CA means that mutual trade is not a significant source of both foreign exchange earnings and resources for the countries of the region (Table 2).

**Table 2. The share of mutual trade in the countries of CA for 2014-2018**

	2014	2015	2016	2017	2018	Change, p.p.
The share of mutual exports, %						
Total	4.9	5.4	6.0	6.2	6.2	+1.3
Kazakhstan	3.3	4.3	4.7	4.7	4.7	+1.4
Kyrgyzstan	15.5	18.4	18.6	17.1	13.7	-1.8
Uzbekistan	15.6	12.3	9.1	11.1	13.8	-1.8
Tajikistan	23.6	18.4	26.8	40.0	43.8	+20.2
Turkmenistan	15.6	12.3	9.1	11.1	13.8	-1.8
Share of mutual import, %						
Total:	6.6	6.7	7.8	8.1	8.3	+1.7
Kazakhstan	4.0	3.7	4.9	4.6	4.3	+0.3
Kyrgyzstan	21.6	20.0	19.4	19.7	16.7	-4.9
Uzbekistan	9.2	9.7	11.0	12.1	11.9	+2.8
Tajikistan	17.8	19.5	20.7	24.3	23.8	+6.0
Turkmenistan	3.8	1.9	1.4	1.4	4.5	+0.8
The share of mutual trade, %						
Total:	5.6	6.0	6.9	7.0	7.0	+1.4
Kazakhstan	3.6	4.1	4.8	4.7	4.6	+1.0
Kyrgyzstan	21.6	20.0	19.4	19.7	16.7	-4.9
Uzbekistan	11.4	10.7	10.2	11.7	12.6	+1.2
Tajikistan	18.8	19.3	22.1	28.4	28.9	+10.1
Turkmenistan	2.7	1.8	2.9	1.3	1.4	-1.3

Source: Author's calculations based on the ITS, 2018

The lowest share of mutual trade in 2018 was observed in Turkmenistan - about 1.4%, in Kazakhstan - 4.6% and the highest share of mutual trade with the countries of CA was in Tajikistan - 28.9% and Kyrgyzstan - 16.7%.

For Uzbekistan, the share of mutual trade was 12.6% in 2018. For example, in the countries of the European Union, mutual trade accounts for more than 60%. The share of mutual exports in CA rose from 4.9% to 6.2% or 26% in 2014-2018. The share of mutual exports in Tajikistan has increased most significantly from 23.6% to 43.8% and in Kazakhstan from 3.3% to 4.7% in the same period.

The largest decline in the share occurred in Kyrgyzstan and Uzbekistan, from 15.5% to 13.7% and from 15.6% to 13.8%, respectively. The share of mutual imports in the countries of CA increased on average from 6.6% to 8.3%, or by 25% in 2014-2018. The share of mutual exports in Tajikistan grew most significantly from 17.8% to 23.8% and in Uzbekistan from 9.2% to 11.9%. And the largest decline in the share occurred in Kyrgyzstan from 21.6% to 16.7%. Thus, in general, for the countries of CA, the current level of trade is low. It was very low (less than 5%) in Kazakhstan and Turkmenistan, lower than the average (from 5% to 30%) in Uzbekistan, Kyrgyzstan, and Tajikistan. Thus, the first hypothesis regarding the low level of mutual trade between the countries of CA has been confirmed.

The mutual trade grew most strongly in Tajikistan, much less - in Kazakhstan and Uzbekistan for 2014-2018. A decrease in the share of mutual trade with the countries of CA occurred in Kyrgyzstan and Turkmenistan. The strong importance of reciprocal trade is characteristic of small countries (such as Tajikistan and Kyrgyzstan), which are economically dependent on larger neighbouring countries. The exception here is Turkmenistan, which has rich oil and gas reserves with a relatively small population, and therefore its economy does not depend on demand in neighbouring larger countries.

For larger countries in the region (Kazakhstan and Uzbekistan), the importance of reciprocal trade is less visible. However, Uzbekistan, in contrast to Kazakhstan, is a double-closed country (double country locked), which implies its greater dependence on neighbouring countries than in the case of Kazakhstan. As for mutual exports, its share has sharply increased in Tajikistan, and only slightly in Kazakhstan for 2014–2018. In other countries of the region, there was a slight decrease in this indicator. The share of mutual imports also increased markedly in Tajikistan, Uzbekistan, and slightly in Turkmenistan and Kazakhstan. And only in Kyrgyzstan, there was a noticeable decrease in mutual imports.

#### **4.2. Assessment the Importance of Some Countries as Trade Partners of CA**

The assessment of the importance of various foreign countries as trading partners was carried out on the basis of the share of the trading partner in the total trade volume of the country (region) under consideration. China (27% of total exports of the CA), Russia (23%), and EU (12.4%) were the most important trade buyers of

goods from CA in 2018, while Turkey (3.2%), Iran (2.9%), and USA (1.3%), India (0.5) and Pakistan (0.1) were insignificant trade importers (Table 3).

**Table 3. The structure of trade in CA with selected countries, % of total trade**

	2014	2015	2016	2017	2018	Growth (+), p.p.
<b>Exports from CA</b>	100.0	100.0	100.0	100.0	100.0	0.0
EU	13.2	15.2	15.4	12.9	12.4	-0.8
China	23.6	25.8	30.6	30.1	27.0	+3.4
Russia	20.4	22.7	23.2	24.0	22.8	+2.4
Iran	1.5	1.9	1.9	1.3	2.9	+1.4
India	0.6	0.6	0.5	0.5	0.5	-0.1
Pakistan	0.0	0.0	0.1	0.1	0.1	+0.1
Turkey	4.4	5.2	4.9	4.2	3.2	-1.2
USA	1.7	1.0	2.7	1.4	1.3	-0.4
<b>Imports to CA</b>	100	100	100	100	100	0.0
EU	61.9	45.6	41.1	47.3	61.0	-1.0
China	28.1	27.2	25.4	27.5	36.1	+8.0
Russia	11.1	9.1	10.3	11.1	12.8	+1.8
Iran	0.5	0.3	0.8	0.3	0.3	-0.2
India	1.3	1.7	0.9	2.3	1.7	+0.4
Pakistan	0.0	0.0	0.1	0.1	0.1	0.0
Turkey	3.8	4.8	5.2	5.7	5.2	+1.4
USA	2.0	1.8	1.7	1.6	2.8	+0.8
<b>Turnover in CA</b>	100	100	100	100	100	0.0
EU	33.8	28.9	26.8	27.6	31.3	-2.5
China	25.5	26.4	28.3	29.0	30.5	+5.0
Russia	16.4	16.6	17.5	18.5	18.9	+2.5
Iran	1.1	1.2	1.4	0.9	1.9	+0.8
India	0.9	1.1	0.7	1.3	1.0	+0.1
Pakistan	0.0	0.0	0.1	0.1	0.1	+0.1
Turkey	4.2	5.0	5.0	4.8	4.0	-0.2
USA	1.9	1.4	2.3	1.5	1.9	0.0

Source: Author's calculations based on the ITS, 2018

EU (61% of all imported goods to CA), China (36.1%), Russia (12.8%) were also the important exporters of goods to the region in 2018, while Turkey (5.2%), the USA (2.8%), India (1.7%), Iran (0.3%) and Pakistan (0.1%) were insignificant exporters. In terms of turnover, the most important trading partners for CA in 2018 were the EU (31.3%), China (30.5%), Russia (18.9%), and the least important - Turkey (4%), Iran (1.9) %, US (1.9%) and India (1%).

Thus, the second hypothesis regarding important countries of trade partners is confirmed only for the EU, China, and Russia, but not for other countries. At the same time, if we consider the trade of the region in dynamics for 2014-2018, the importance of China, Russia, as trading partners is growing, and the countries of the EU are declining. China's importance is growing due to the participation of the



countries of CA in the China-initiated BRI, and Russia due to the participation of some countries of the region, particularly Kazakhstan and Kyrgyzstan, in the activities of the EAEU. The importance of Iran as a buyer of goods from CA, Pakistan, and Turkey as suppliers of cheap and quality consumer goods to CA also grew. At the same time, in 2014–2018, exports from CA and its imports from other countries declined in dollar terms. This situation was observed in relation to trade with almost all other partner countries, with the exception of Iran and Pakistan on exports and India on imports. Perhaps this is due to a sharp drop in world prices for raw materials, which are supplied to the world market by CA. We will test this hypothesis further.

Despite the active participation of the countries of CA in the Chinese initiative "Belt and Road" since 2014, and Kazakhstan and Kyrgyzstan in the EAEU initiated by Russia, since 2015, these large regional projects could not reverse the negative dynamics regarding the export and import of CA (Table 4).

**Table 4. Trade of CA with different countries, billions of dollars**

	2014	2015	2016	2017	2018	Growth (+), p.p.
<b>Exports from CA</b>	101.8	68.0	58.8	70.8	83.4	-18.1
EU	13.5	10.3	9.0	9.1	10.4	-23.1
China	24.1	17.6	18.0	21.3	22.6	-6.2
Russia	20.7	15.4	13.6	17.0	19.0	-8.3
Iran	1.6	1.3	1.1	0.9	2.5	+56.3
India	0.6	0.4	0.3	0.4	0.4	-29.9
Pakistan	0.03	0.0	0.0	0.1	0.1	+349.4
Turkey	4.51	3.6	2.9	3.0	2.7	-40.8
USA	1.8	0.7	1.6	1.0	1.1	-38.7
<b>Imports to CA</b>	74.6	55.4	47.5	53.0	53.0	-29.0
EU	46.2	25.3	19.5	25.1	32.3	-30.1
China	21.0	15.1	12.1	14.6	19.1	-8.8
Russia	8.2	5.0	4.9	5.9	6.8	-17.4
Iran	0.4	0.2	0.4	0.2	0.2	-57.7
India	0.02	0.02	0.050	0.04	0.03	+40.4
Pakistan	2.9	2.7	2.5	3.0	2.8	-3.2
Turkey	1.5	1.0	0.8	0.9	1.5	-2.0
USA	74.6	55.4	47.5	53.0	53.0	-29.0
<b>Turnover in CA</b>	176.4	123.4	106.3	123.8	136.4	-22.7
EU	59.7	35.6	28.5	34.2	42.7	-28.5
China	45.0	32.6	30.0	35.9	41.7	-7.4
Russia	29.0	20.4	18.6	22.9	25.8	-10.9
Iran	1.9	1.5	1.5	1.1	2.6	+34.7
India	1.6	1.4	0.7	1.6	1.3	-16.6
Pakistan	0.0	0.0	0.1	0.1	0.1	+212.0
Turkey	7.4	6.2	5.3	6.0	5.4	-26.2
USA	3.3	1.7	2.4	1.9	2.6	-21.9

Source: Author's calculations based on the ITS, 2018

For example, China's trade with CA in dollar terms fell from USD45 to USD41.7 million, or by 7.4%, and with Russia, from USD29 to USD25.8 million, or by 10.9% in 2014 -2018 years. A similar situation was observed with respect to exports and imports. Thus, the third hypothesis that the Russia-initiated EAEU and the Chinese "Belt and Road" initiative stimulate the growth of mutual trade with CA is not confirmed.

### 4.3. Assessment the Importance of CA for its Trading Partners

The current interests of various countries in terms of the attractiveness of trade with the countries of CA can be assessed by the indicator of the importance of regional trade for foreign countries (Table 5).

**Table 5. The share of CA in the trade of other countries, %**

	2014	2015	2016	2017	2018	Growth (+), p.p.
<b>World exports</b>	0.54	0.40	0.34	0.39	0.37*	-0.17*
EU	0.39	0.24	0.21	0.20	0.22	-0.16
China	1.03	0.77	0.86	0.94	0.90	-0.12
Russia	4.17	4.48	4.78	4.72	4.23	+0.07
Iran	1.74	2.11	1.35	0.89	2.40*	+0.66*
India	0.19	0.16	0.12	0.12	0.13	-0.06
Pakistan	0.11	0.13	0.18	0.36	0.49	+0.39
Turkey	2.86	2.47	2.01	1.89	1.59	-1.27
USA	0.11	0.05	0.11	0.07	0.07	-0.04
<b>World imports</b>	0.40	0.33	0.30	0.30	0.27	-0.12
EU	1.35	0.59	0.45	0.55	0.70*	-0.65*
China	1.07	0.90	0.76	0.79	0.89	-0.17
Russia	2.88	2.75	2.69	2.59	2.86	-0.02
Iran	0.70	0.47	0.83	0.31	0.33*	-0.37*
India	0.21	0.25	0.11	0.28	0.18	-0.04
Pakistan	0.04	0.04	0.11	0.06	0.05	0.00
Turkey	1.18	1.28	1.25	1.30	1.24	+0.06
USA	0.06	0.04	0.04	0.04	0.06	-0.01
<b>World trade</b>	0.47	0.37	0.33	0.35	0.36*	-0.11*
EU	0.86	0.41	0.33	0.37	0.46	-0.40
China	1.05	0.83	0.82	0.87	0.90	-0.15
Russia	3.69	3.88	3.97	3.89	3.76	+0.06
Iran	1.36	1.45	1.17	0.70	1.75*	+0.39*
India	0.20	0.21	0.12	0.22	0.16	-0.04
Pakistan	0.06	0.07	0.13	0.14	0.17	+0.11
Turkey	1.85	1.77	1.57	1.53	1.39	-0.45
USA	0.08	0.04	0.06	0.05	0.06	-0.02

Source: Author's calculations based on the ITS, 2018, \*Note: calculated data

From this table, it follows that the countries of the region are not important trading partners for any foreign country. Trade with CA is significant for exports only for

Russia (4.23%), Iran (2.4%), Turkey (1.59%), for imports is significant for Russia (2.86%), Turkey (1.24%), and with respect to overall trade is significant for Russia (3.76%), Iran (1.75%), and Turkey (1.39%). Thus, the fourth hypothesis that CA is a significant trading partner is confirmed only for Russia, Turkey, and Iran, and not for China.

Let us now consider the importance of CA as a trading partner for other countries. The attractiveness of CA for Russia is associated with a common history and culture, the presence of a large Russian diaspora, a good knowledge of Russian language by the population, as well as the functioning of the EAEU, whose members are two countries of the region, namely Kazakhstan and Kyrgyzstan. The importance of CA for Turkey is associated with the existence of close historical, linguistic, and cultural ties, as well as the affinity of the peoples living there.

The growing attractiveness of CA for goods from Iran is associated with the opening of a direct railway from Kazakhstan to Iran via Gorgan from December 2014. The annual throughput capacity of the Kazakhstan-Turkmenistan-Iran (CTI) railway is 15 million tons or up to 25 train pairs per day. However, the renewed US sanctions against Iran, as well as the poor development of railway lines from the northern part of the country to the Persian Gulf, restrain mutual trade. For this reason, the workload of the line does not exceed 10% of its carrying capacity. In 2018, the volume of transported cargo amounted to 1.2 million tons, including 226 thousand tons in transit (Mashaev, 2019).

Thus, CA is currently an attractive trading partner for Russia, Iran, and Turkey. At the same time, its share in the total trade of the first two countries continues to increase, while trade with Turkey is decreasing. One of the reasons is the fact that Turkey is geographically farther from CA than Russia and Iran and does not have a general border with the region.

CA is not a significant trading partner for China in terms of exports and imports, as well as total trade volumes (share less than 1%). The volumes of current oil imports from the region, which account for less than 3% of China's annual oil consumption, are also not significant for the Chinese economy. The exception is the import of natural gas, which now accounts for 20% of the gas consumed by China (CNPC, 2017). The decline in the share of CA in China's total trade over the past five years shows that the economic importance of CA for China may be even lower in the future. This means that China's cooperation with CA has a political nature. It is more due to the desire of the Chinese authorities to ensure the energy and resource security of the country in the context of confrontation with the US and countering the Islamic factor (Cai, 2018; p.7). Nevertheless, the role of CA as a supplier of energy resources in the future may increase, given that China "is creating a pipeline system in the region for the future and with a large capacity reserve" (Kokarev et al., 2017: p. 30).

#### 4.4. The Structure of Foreign Trade of the Countries of CA

The 20 largest export commodity items accounted for 96-97% of the total exports of CA, including commodities - 85-89% of the total value of exports. There is a slight decrease in the share of raw materials in the export volume of the countries of the region from 89% to 85% in 2014–2018 (Table 6), which can be characterized as a positive trend. But the share of raw materials in the region's exports is very high, which predetermines an unstable future development of the region, since specialization in commodities gives low added value, and prices on raw materials are subject to unpredictable changes.

**Table 6. The structure of the export value of CA (20 largest commodities)**

Code	Name of commodity	2014	2015	2016	2017	2018
Total	All products	100	100	100	100	100
27	Fuel, oil and distillation products	72.3	63.2	55.0	57.2	67.4
72	Cast iron and steel	3.5	4.0	5.2	6.2	6.6
26	Ores, slag, and ash	2.8	1.9	2.7	3.9	4.1
74	Copper and its products	2.4	4.0	4.4	4.6	4.1
28	Inorganic chemicals	3.2	5.5	5.0	3.5	3.4
10	Groats	1.1	1.3	1.6	1.2	2.0
71	Pearls, precious stones, and metals	3.0	5.4	8.0	7.5	1.9
76	Aluminium and its products	0.6	1.0	1.1	1.1	1.3
25	Salt; sulphur; earth and stone; lime and cement	0.6	1.0	0.8	0.7	1.2
11	Milling products	0.6	0.8	1.1	0.7	0.7
52	Cotton	1.8	3.0	2.8	2.4	0.5
12	Oilseeds, fruits; grain and fruit	0.3	0.4	0.4	0.4	0.5
84	Machines and devices, reactors	1.0	0.4	0.6	0.5	0.5
79	Zinc and its products	0.7	1.1	1.3	1.5	0.4
73	Iron or steel products	0.2	0.3	0.3	0.3	0.4
85	Electrical machinery, equipment	0.5	0.4	0.5	0.4	0.4
81	Base metals and metal ceramics	0.2	0.3	0.3	0.3	0.3
78	Lead and its products	0.2	0.3	0.4	0.4	0.3
07	Edible vegetables and some roots and tubers	0.3	0.4	0.6	0.5	0.3
61	Clothing and clothing accessories	0.2	0.3	0.4	0.5	0.2
	Sample share in total	95.6	95.1	92.4	94.0	96.7
	The share of commodities	85.0	81.8	77.4	80.3	82.1
	Their share in the general sample	89.0	86.0	83.8	85.4	84.9

Source: Author's calculations based on the ITS, 2018

The largest exports of CA are oil and refined products (67.4%), iron and steel (6.6%), ores (4.1%), copper (4.1%), inorganic fertilizers (3, 4%), cereals (2%), non-ferrous metals (1.9%), and aluminium (1.3%).

CA imports are more diversified than exports. The 20 largest commodity items accounted for about 74% of the total imports of the region (Table 7).

The main imports were cars (14.6%), electric cars (10.6%), oil and refined products (7.2%), vehicles (6.1%), steel products (5.9%), plastic products (3.7%), medicinal products (3.4%), devices (2.3%), ores (1.9%), and clothes (1.7%). At the same time, insignificant diversification of imports was observed in 2014–2018, somewhere by 0.8 percentage points.

**Table 7. The structure of the import value of CA (20 major commodities)**

Code	Name of commodity	2014	2015	2016	2017	2018
Total	All products	100	100	100	100	100
84	Machines and devices, reactors	15.6	17.0	17.6	16.2	14.6
85	Electrical machinery, equipment	8.6	9.2	8.7	8.6	10.6
27	Fuel, oil, and distillation products	6.8	6.7	6.3	6.9	7.2
87	Ground Transportation	10.5	6.9	5.2	6.7	6.1
73	Iron or steel products	6.3	7.5	7.0	5.0	5.9
72	Cast iron and steel	3.6	4.1	3.5	4.4	3.9
39	Plastics and products from them	3.5	3.9	4.1	3.9	3.7
30	Pharmaceutical Products	3.4	3.9	3.8	3.7	3.4
90	Devices	2.2	2.2	2.6	2.5	2.3
26	Ores, slag, and ash	0.9	1.0	1.7	1.8	1.9
64	Shoes, leggings, etc.	1.0	0.9	1.2	1.2	1.7
38	Other chemical products	1.1	1.2	1.4	1.8	1.6
40	Rubber and products from it	1.5	1.4	1.5	1.6	1.5
08	Edible fruits and nuts	1.0	1.0	1.1	1.1	1.5
88	Aircraft and spacecraft	1.9	1.2	1.8	1.1	1.5
94	Furniture and bedding	1.7	1.7	1.6	1.6	1.5
48	Paper and cardboard	1.2	1.2	1.4	1.4	1.4
44	Wood and wood products	2.4	2.0	1.9	1.9	1.3
28	Inorganic chemicals	0.9	1.0	1.1	1.2	1.3
61	Garments and accessories	0.8	0.7	0.8	0.8	1.2
	Sample share in total	74.8	74.8	74.0	73.5	74.0

Source: Author's calculations based on the ITS, 2018

Such a structure of exports and imports is characteristic of the former colonial countries, which in the world market act as sellers of raw materials, and the world market of finished products act as its buyers. Since raw materials are much cheaper than finished products, and their prices are more variable, the benefits of such countries from trade are very small compared to the available opportunities.

#### 4.5. Reasons for Reducing the Total Value of Trade in CA

Determine what causes the decline in the value of trade in CA? Is it caused by a decrease in physical volumes of trade or a decrease in prices? Let us test our hypothesis that the main reason for the decline in the value of trade in the countries of CA was the decline in world commodity prices and not the drop in the physical volume of trade. Given the high share of commodity exports, the decline in world prices for raw materials could cause a general decline in the value of the region's exports.

This may also explain the decline in imports by CA countries. The fall in exports in the conditions of the constant interest of the states to keep the balance of payments in equilibrium so as not to increase their external debt and payments on it can lead to a proportional reduction in imports.

Our study shows that the main reason for the decline in the value of trade in CA for 2014–2018 was a decrease in prices by an average of 22.8%, although quantitative export volumes grew by only 3.1% (Table 8).

**Table 8. Changes in the value, prices, and quantity of exports of CA for 2014-15, %**

Code	Name of commodity	Change in value	Price change	Quantity change
Total	All products	-20.3	-22.8	+3.1
27	Fuel, oil and distillation products	-25.7	-24.0	-2.2
72	Cast iron and steel	50.1	-24.0	+97.6
26	Ores, slag and ash	17.9	-23.0	+53.2
74	Copper and its products	36.0	1.8	+33.6
28	Inorganic chemicals	-16.0	-22.3	+8.1
10	Groats	43.1	-7.1	+54.0
71	Pearls, precious stones and metals	-49.0	-11.9	-42.2
76	Aluminium and its products	69.2	20.8	+40.1
25	Salt; sulphur; earth and stone; lime and cement	45.8	-14.9	+71.3
11	Milling products	-5.5	-11.1	+6.3
52	Cotton	-76.4	17.6	-79.9
12	Oilseeds and fruits; grain and fruit	36.5	-16.8	+64.0
79	Zinc and its products	-49.2	44.7	-64.9
81	Base metals and metal ceramics	37.5	1.8	+35.1
78	Lead and its products	23.4	14.4	+7.9
31	Fertilizers	-27.9	-14.9	-15.2
24	Tobacco and industrial tobacco substitutes	-11.9	4.3	-15.5
17	Sugar and pastry	117.9	-21.4	+177.2
03	Fish and crustaceans, molluscs	-8.4	-2.9	-5.6
44	Wood and wood products	592.0	6.7	+548.3
02	Meat and edible meat offal	143.1	-1.7	+147.3
18	Cocoa and cocoa preparations	6.7	-19.9	+33.1
29	Organic chemicals	-7.3	-13.5	+7.1
40	Rubber and products from it	-43.7	-14.2	-34.3
75	Nickel and its products	719.2	-17.0	+886.5
80	Tin and articles thereof	-86.7	-1.6	-86.5

Source: Author's calculations based on the ITS changes in value, the World Bank on changes in world prices for goods, and the US Department of Labour on USD inflation (2018).

## 5. Discussion of the Research Results

India and Pakistan are not actively involved in cooperation with the countries of CA, due to the lack of common borders and transport infrastructure. Trade with the EU

and the USA is limited to its considerable geographical distance from CA. The EU is mostly interested in the region's energy resources, which allow them to diversify its dependence on Russian oil and gas.

Iran has a common border with CA (through Turkmenistan) involved in mutual trade with the countries of the region. Still, it cannot take an active role in trade and investment cooperation, due to US sanctions imposed on its firms and foreign companies cooperating with them.

And only Russia and China, having common borders with the region, are not limited to foreign trade, but offer regional initiatives to the countries of CA. They have a more pronounced interest in the region, as they border it, and through CA run one of the shortest land trade routes from Europe to China and from Russia to South Asia.

At the same time, Russia and China have different national interests, different geopolitical weight, different economic and financial opportunities, and, accordingly, different goals and expectations in relation to CA. If Russia seeks to influence through the inclusion of some countries of CA (namely, Kazakhstan and Kyrgyzstan) in the EAEU, then China seeks to pursue its policy through the involvement of these countries in the Silk Road Economic Belt investment program (SREB) (Gussarova et al., 2017). This is due to the fact that Russia has close historical, cultural, linguistic ties with the countries of the region, while China has abundant financial resources but has not previously actively interacted with the region. Therefore, approaches to cooperation with CA, Russia, and China are different.

If Russia strives to form an economic union with some countries of the region more on an equal and mutually beneficial basis, then China will strive to get cheaper raw material resources of CA countries through the provision of generous loans to the noticeably corrupt authorities of these countries to implement local projects, but on their own terms, which are not always beneficial to these countries. If Russia accepts only countries in its union that meet the requirements for financial sustainability, then China attracts all countries of the region to cooperate, despite their different levels of development and type of government. If Russia relies on existing infrastructure, then China has to build it from scratch. If in the Russian case, the rights and obligations of each country are transparent and definite, in the Chinese initiative, they are not transparent and clear, which makes it possible to abuse them in relation to these countries (Gussarova et al., 2017; Beech, 2018; Syroezhkin, 2019).

For the countries of the region, the EAEU project initiated by Russia is more attractive than the Chinese BRI since it is focused on the development of integration projects with the simultaneous participation of many countries. At the same time, China cooperates with the countries only on a bilateral basis. Russia considers the national interests of these countries in the development of their national economies, providing them with preferential energy prices and pursuing a policy of zero customs tariffs for members of the Union (Gussarova et al., 2017). China is trying to realize its national interests, but not the interests of its partners.

The disadvantages of the Russian initiative are, firstly, that only selected countries of the region can meet the requirements of the EAEU regarding financial sustainability, which limits the scope of the project. Secondly, the EAEU is not focused on changing the vector of existing foreign trade flows, which does not always correspond to the interests of the countries in the region.

The advantage of the Chinese initiative is that, firstly, a bilateral approach allows for a flexible approach to all countries of the region, and, secondly, it involves the creation of transport infrastructure in new promising areas for the region. For example, the "Western Europe - Western China" motorway will significantly reduce the time of cargo transportation compared to existing alternative corridors from 45–60 days (Southern Sea Route) or 18–20 days (Trans-Siberian Railway) to 11–13 days. This will increase freight traffic by 2.5 times by 2020, and the average annual total economic effect will be USD89 million (Chatterjee, 2018). This, to some extent, eliminates the skewness of trade flows towards the former metropolis, and optimizes trade flows towards the new centre of power, which is China. On the other hand, it is, to some extent also in line with the strategic interests of CA countries that are interested in increasing the transit of goods through their territory, for example, Kazakhstan's strategic initiative, Kazakhstan - New Silk Road, which was announced in 2012.

The disadvantage of the land branch of Chinese "Belt and Road" initiative is that, firstly, it is a purely political project that is not aimed at enhancing economic integration between the countries of the region. It is aimed at deepening relations of CA with China in areas of strategic interest of China (Chatterjee, 2018). Its main goal is to provide China's economy with guaranteed resources if the sea route is suddenly blocked. This makes China put up with the economic inefficiency of the land route, which is two times more expensive than the sea route. The railway is now fully loaded only in one direction, and in the opposite direction, the trains go half empty. Today it functions only thanks to subsidies from the government of China. With this assistance, Chinese and Western companies can pay an affordable price for a container. Without subsidies, shipping a 20-foot container by rail will cost about USD9,000, while after subsidies, it will cost USD5,000 (Chatterjee, 2018).

Secondly, this initiative is an attempt to solve the problems of overcapacity and capital, reducing trading opportunities, increasing debt, and reducing the profits of Chinese firms through the geographical expansion of activity and by attracting the natural resources of other countries. The initiative provides for the implementation of Chinese infrastructure projects on account of loans provided to host countries, or by direct transfer of their mineral deposits or important infrastructure facilities and enterprises into Chinese ownership. Even though host countries are paying for everything, about 90% of the Belt and Road projects are built by Chinese companies, using Chinese workers, materials, and equipment. It turns out that China, through the implementation of these projects, helps its own economy by getting into the



"debt hole" of host countries. At the same time, the price of such raw materials for China is much lower than world prices.

Another disadvantage of the Chinese initiative for host countries is the opacity of the realized projects, the lack of clear criteria for allocating funds, and an effective mechanism to protect the rights of the participating countries. All this contributes to the development of corruption and leads to a rapid increase in the debts of the countries involved (Hart-Landsberg, 2018). "In the area of credit, China often fails to comply with international standards in areas such as anti-corruption, export credits, and the search for coordinated and sustainable solutions to payment difficulties, as practised in the Paris Club (Sengupta, 2019). China does not always implement high-quality and efficient projects. Many of his projects suffer from poor governance, cost overruns, and lack of benefits for the countries involved. It is a matter of concern that some CA countries become indebted to China, such as Tajikistan (whose foreign debt is 56%) and Kyrgyzstan (44.7%). Turkmenistan and Kazakhstan are very close to the critical point (Syroezhkin, 2019; Sheehan, 2017; Musuraliev, 2016; Rickleton, 2014). In 2011, China wrote off the unsolved debt of Tajikistan in exchange for 1,158 square km of disputed territory (Kuo & Kommenda, 2018).

In general, a common shortcoming of projects initiated by other powers is that industrial and energy policies are underdeveloped in the EAEU and are not at all taken into account in the SREB (Gussarova et al., 2017).

## **6. Conditions and Possible Ways of Creating a Regional Union**

The participation of the countries of the region in the projects of other powers is justified only as long as it corresponds to their national interests. In the meantime, the interests of the countries of CA are not fully taken into account (Gussarova et al., 2017). Such projects more reflect the interests of other powers that initiated them.

Given the common historical, cultural, religious, and linguistic ties, as well as incomplete consideration of the region's interest in projects initiated by other powers, in order to strengthen mutual cooperation between the CA countries and the effective implementation and protection of their national interests, it is desirable for them to create their own regional union. Fukuyama (2016) believes that in the long term, CA will cease to be the periphery of the global economy, becoming its centre.

Of course, this will not be so easy. "Being located on the borders of three large civilizations, having a complicated history and variegated ethnoreligious composition of the population, the CA region is often perceived as a potential "powder keg" in the concepts of Huntington and others" (Shaymergenov & Abisheva, 2017).

However, it is quite possible under the following conditions:

- Transit transport routes, power lines, and data transmissions that pass through the region should not create favourable conditions just for transporting resources

from the region, which can lead to low growth rates and isolation of countries in the region from each other in the future. Their placement and configuration should, first of all, be aimed at the development of a network of internal roads in order to develop their own production, to reduce the cost of manufacturing complex products, and to provide raw materials for their own processing needs.

- Regional cooperation should be developed on a complementary, not competitive basis. This will eliminate the likelihood of conflicts and increase the interconnection of the countries of the region from each other, which will stimulate the process of successful regional integration. Such cooperation is most effective in the production of goods with a high degree of processing and readiness, and not of primary raw materials, where such opportunities, as a rule, are either severely limited or completely absent (Nurseit, 2017).
- It is difficult to quickly change the raw material specialization of the region since the creation of the processing sector requires a lot of time and money. However, according to the Hartwick rule, the countries of the region should begin today to defer part of the income derived from the export of raw materials (Hartwick, 1977), at least in the amount of real rent to create new industries that can generate sufficient income in an amount sufficient to make up for the loss of income from the extraction of non-renewable raw materials.
- Given the small capacity of the domestic market, in order to ensure the rapid development, the countries of CA have to produce finished products with high added value, initially focusing on exporting outside the region, since domestic buyers will not have significant income to be the main consumers of such products for a long time.
- To ensure the rapid growth of the economy, the income received from exports, the countries of CA should invest in solving the key problems of the region, hindering its development, and not be directed to current consumer needs or implementation of pompous and unprofitable projects, so-called "white elephants."
- The level of domestic savings in the countries of the region should be raised to at least 30% in order to fully ensure the necessary regional investments without increasing external debt. This will create the necessary conditions for high growth rates in the region. Another option, the financing of local infrastructure projects with external debt, as often happens within the framework of the Chinese BRI (Syroezhkin, 2019; Sengupta, 2019), is not an acceptable option for the countries of the region, as this may lead to a noticeable decrease in the investment rate in the future and a sharp slowdown in the growth of the region.
- Progressive leaders with a strategic vision of the prospects of the entire region, and not a "blinker" vision within the framework of the national, clan, or personal interests, should come to power.

- The region needs a country - a real leader of integration, which would be recognized by all other countries of the region. It must show not only outstanding achievements in financial, economic, scientific, and technological development but also be large enough to serve as a centre of regional attraction. The leading country should take on the task of scientific, technical, and cultural leadership, including initiating and financing infrastructure projects, training personnel for neighbouring countries, etc. Currently, Kazakhstan fulfils this role, as it leads to the region in terms of per capita GDP. Unfortunately, its leadership is only nominal. The reason is that it has nothing special to offer in scientific, technical, and cultural terms. Its leadership in the standard of living of the population is also based on a shaky foundation – mainly the extraction of fossil materials.
- Regional integration requires legislative support with a clear desire and a single will of the authorities of all regions of the region in the development of regional cooperation. For this purpose, it is necessary to conclude agreements between the countries of the region on cooperation and the mutual favoured regime in the field of trade, culture, science, investment, integration, innovation. A single permanent supranational body should be created with sufficient authority to coordinate this process.

## 7. Conclusion

The current level of reciprocal trade in the countries of CA is at a low level of about 7% of the total turnover. Consequently, the first hypothesis regarding the low level of mutual trade between the countries of CA has been confirmed.

Important trading partners for CA in terms of trade are the EU (31.3%), China (30.5%), Russia (18.9%), and the least significant are Turkey (4%), Iran (1.9%), USA (1.9%) and India (1%). This means that the second hypothesis is confirmed in relation to the EU, China, and Russia, but not confirmed in relation to other countries.

Despite the active participation of the countries of CA in the EAEU initiated by Russia and China's BRI, Russia's trade with CA declined from USD29.0 million to USD25.8 million (10.9%), and with China from 45.0 to 41.7 million dollars (by 7.4%) for 2014–2018. This means that the third hypothesis, about the positive impact of the EAEU and the BRI on the growth of mutual trade in CA, is not confirmed. The main reason is that regional initiatives do not fully consider the interests of these countries in the field of economic development. Trade with the CA is significant for exports of Russia (4.2%), Iran (2.4%), Turkey (1.2%), and for imports of Russia (2.9%), Turkey (1.6%), and for total trade volumes - for Russia (3.8%), Iran (1.8%) and Turkey (1.4%). Hence, this means that CA is a significant trading partner for Russia, Turkey, and Iran. However, the fourth hypothesis that the region is an important trading partner for these countries is not confirmed.

Our study showed that in 2014–2018, the main reason for the decline in the value of exports in CA was the decline in prices by 22.8% since the physical volumes of exports

did not increase significantly during this time. This confirms the fifth hypothesis that the reason for the decline in the value of trade in CA in 2014–2018 was a decline in world prices for raw materials and not a change in the physical volume of trade.

The study revealed that the most promising economic partner for CA is currently Russia since it offers more equitable and transparent conditions for cooperation to the countries of the region. China's policy is less transparent, predictable, and equitable. Taking advantage of financial problems and high levels of corruption in the partner countries, China imposes not always mutually beneficial and fair conditions of cooperation on them (Chatterjee, 2018). Tajikistan, Kyrgyzstan is named among the countries of the region that are at serious risk of inability to repay loans. Turkmenistan and Kazakhstan are also on the verge of this (Syroezhkin, 2019).

In general, in order to realize national interests, CA countries should act as a united group in cooperation with the world and regional powers. Only in this case they will be able to negotiate with foreign powers on mutually beneficial terms. This will give a powerful impetus to mutual trade, investments, and integration, and help to protect their interests on the world arena more effectively, and create more favourable conditions for turning the region into one of the centres of world civilization.

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