

China's economic interests in the “One Belt, One Road” initiative

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Abstract. The article examines the "One Belt – One Road" initiative of China aimed at the development of transport and logistics infrastructure on the trade route from China to Europe. The authors pay special attention to the history of the Silk Road, which serves as an ideological basis for the modern initiative. The scale of the new project allows the authors to expect that its impact on the international trade will be comparable with the contribution of the historical Silk Road to the development of the global economy as we know it. The authors analyze the prospects of the development and implementation of the initiative in terms of China's economic interests. The most significant threats associated with the initiative are identified.

Key words: OBOR, Silk Road, modern initiative, economic interests

1 Introduction

China has entered a new stage of its development. Nowadays, as in the era of the Ancient Silk Road, China leads the world trade and has positive net balance of trade with Europe and the United States of America. Europe buys about 1 billion euros worth of goods from China annually, but China imports only half of this volume from the European countries. China is now in active search of the ways to change its image, to strengthen its international standing and thus becoming a leader of the world economic relations development. The modern global distribution system has been created by other countries and is not controlled by Beijing, so China is interested in ensuring that its international political and cultural influence is growing to reflect its economic strength, beginning with the region of Southeast and Central Asia [1].

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The “One Belt – One Road” (OBOR) initiative was first announced by China internationally in 2013 [2]. Its fundamental goal is to create transport corridors to facilitate access to foreign markets and increase the turnover of goods transported from China to Europe and adjacent regions through Central Asia. The region of Central Asia includes Afghanistan, Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, Turkmenistan, Uzbekistan, and also vast territories of India, Iran, China, Pakistan and Russia. The geographic center of the region is located on the border of Kazakhstan, China and Kyrgyzstan.

In 2015, the National Development and Reform Commission approved the name of the initiative as the "Silk Road Economic Belt and the 21st Century Maritime Silk Road" or a short version of the "Belt and Road Initiative" abbreviated to BRI or just B&R. According to M. Glantz, by using the image of the Ancient Silk Road, the representatives of the state authorities and business of China try to revive the memories of the era of trade prosperity in ancient China [3]. Taking historical analogies into account, it is not surprising that in some of the countries involved the initiative is commonly referred to as just the New Silk Road. However, the former reduction of OBOR has already become a recognizable global brand, and is therefore widely used in scientific literature and this article, although it is not currently used in official Chinese documents and publications.

OBOR affects various areas of development of many states and regions of the world: security, socio-cultural, political, diplomatic and civilizational aspects of their existence. At the same time officials of China prefer not to focus attention on the geopolitical goals of the initiative.

In May 2017, Beijing hosted the "One Belt – One Road" International Economic Forum, dedicated to the prospects of implementing the initiative and the new strategy of China's economic expansion. In his speech, Xi Jinping identified five fields of international cooperation [4]: political coordination, the interconnection of infrastructures, free trade, free movement of capital, and strengthening of ties between peoples. The scale of the OBOR initiative is in fact unprecedented. The projects within the initiative provide for participation of 65 countries, which account for 70 percent of the world's population. China proposes cooperation with joint investments of 4 trillion dollars in the implementation of the program of the OBOR initiative. It will enable both China and its partners to realize their potential for economic development [5]. The most active supporters of OBOR apart from China itself are Kazakhstan, Iran and Turkey.

The purpose of the study is to clarify the aims of the OBOR initiative, determine the economic interests and potential benefits of China in its effort to revive the Silk Road.

2 Evolution of the Ancient Silk Road

Over the centuries, trade routes between China and Europe have experienced periods of prosperity, decline and new revivals. The term “Silk Road” has been introduced by the German geographer F. Richthofen in his book "China", published in 1877. He is considered the first author to use the metaphor referring to the network of land caravan routes between Europe and Asia [6].

The eastern part of the Silk Road has formed as a regular caravan route with the Chinese emperor Qin Shi Huangdi in 211 BC, which founded the first dynasty of the Chinese Empire. Unified rules of trade were established throughout the territory. The problem of raids on caravans with cargo of neighboring nomad states was solved diplomatically, but in this period, there was no direct route from China to Europe. After the fall of the Qin Dynasty, trade routes collapsed.

The revival and final formation of the Silk Road is associated with the name of the Emperor Wudi (Han Dynasty), who ruled China in 141-87. BC, recaptured Hexi (Gansu corridor), extended the Great Wall of China. China has gradually gained control over all the

cities of the Tarim Basin. All in all, these efforts allowed establishing direct contacts between the Chinese and Western peoples in the Fergana Valley. Chinese silk enjoyed high demand among the noble Romans and was an exotic luxury good [7]. In exchange for silk and spices of the East, Rome exported metals, dishes, glassware, but more often the imports of Oriental goods were paid for by gold and silver. China and India had a positive trade balance and received an average of 100 million sesterces per year from trade with the Roman Empire; for comparison, the total costs of having an army for the Roman Empire were about 150 million sesterces [8].

For several centuries, the trade had been flourishing between West and East, and the main route of the Silk Road had formed: from the Tarim Basin through cities of Khujand, Samarkand and Bukhara along the Amu Darya river to the Aral Sea, around the Caspian Sea to the northern slopes of the Caucasus Mountains (northern path). The southern route went from the Fergana Valley to Egypt. Approximately 120 ships were sent annually from Egypt to India [9]. Although the sea route was shorter (average delivery time was 9 months) and cheaper, the land route remained competitive due to high profitability of caravans [10]. The volume of shipments by land significantly exceeded the volume of shipping.

The factors that made the Silk Road a successful trade route in the analyzed period include the following ones:

- broad and rich markets of goods in the East and West;
- strong, well-organized imperial states;
- political and economic stability of the states along the Silk Road, which ensured the safety of traders and the safety of caravans.

The slowdown in land trade began as early as at the end of the 2nd century AD, when the Han Empire lost control of the Tarim Basin. Only by the end of the 5th century the centralized Chinese state was again created, however, the trade was far less intensive compared to the golden age. By then, the predominant role had shifted to the sea freight and at the end of the 5th century, the Silk Road land route virtually disappeared.

However, it revived centuries later. All in all, there are three most successful stages in the evolution of the Silk Road [11]:

1. 206 BC - 220 BC. In the era of the Han dynasty, diplomatic relations were established with nomadic tribes in the eastern part of the Silk Road to exclude their raids on trade caravans. The modern Chinese city of Xi'an served as the starting point of the road.

2. 618 AD - 907 AD. The Chinese Tang Dynasty controlled the trading corridor of Hexi and ensured the growth of trade in the space of Eurasia.

3. 1271 AD - 1368 AD. During the reign of the Mongol Yuan dynasty, Genghis Khan united China and built one big empire, which ensured the flourishing of the Silk Road and trans-Eurasian land trade.

Historically, the main geopolitical confrontation of the states in the space of Eurasia was set for control over caravan routes. Only a century and a half during the existence of the Silk Road, it was controlled by China (from China to Bukhara) in the 13th-14th centuries. During this period, China accounted for 58% of world GDP [12]. In the years of 1389 - 1395 Timur erased all trading cities on the coasts of the Caspian and Black Seas from the face of the earth. The Silk Road land route was abandoned and there were almost no feasible incentives to restore it. The sea trip to China from the Persian Gulf took 150 days, the overland route from the area of modern Azov up to 300 days [13]. Besides the transportation of a cargo of one ship required 1000 animals. As a result of not being competitive, in the 16th century the Silk Road finally ceased to exist.

The Silk Road played a significant role in the formation of institutions and legal support for international trade. Mediation got widely spread. Merchants usually delivered the goods to the nearest caravan-shed, which served as a hotel and a warehouse. Banks, joint-stock

companies, currency exchange and checks appeared and became usual on the Silk Road. Marco Polo noted the high state guarantees to merchants: a plaque (equivalent to a modern passport or license) was given to each merchant that allowed him to move around Eurasia freely and protect him from looting [14].

The international division of labor was formed. Elephants, lions, silk, porcelain, paper, spices, nutmeg, cloves, cinnamon, tea, etc. were sent from the East. The West traded horses, silverware, agricultural crops, grapes, precious stones and metals, spirits, slaves and others. Cotton and wool products and fabrics were also imported from Central Asia to China. The development of trade along the Silk Road caused the emergence of new professions: changers, translators, camel drivers, caravan guards, customs tax collectors, and many more.

The Silk Road also provided for the transfer of technologies and innovations, as noted by Yu. V. Latov [13]. Papyrus was replaced by paper from China, which increased the circulation of manuscripts in Europe. Europe learned to produce paper only in the 13th century. Silk production technology was gradually exported from China to East Turkestan, in the 5th century - to Iran, in the 6th century - to Greece. The knowledge of the gunpowder production came from China to Europe in the 9th century. Europeans learned to use spices for canning agricultural products. And on the other hand, China has mastered winemaking through technologies that have come from the Roman Empire. It can be concluded that the cooperation of countries within the international division of labor was mutually beneficial and enriched the states of the East and the West with new goods, technologies for their cultivation and production. At the same time, China maintained its technological superiority until the 18th century.

3 China's Goals and Potential Benefits of the One Belt – One Road Initiative

China's economic interests in the 21st century are once again directed through Central Asia to Europe. China is the largest country in terms of population and the leading economy in terms of economic growth: China has become the world leader as suggested by such indicators as total exports and GDP, calculated at purchasing power parity. OBOR has emerged as a large-scale project, which ideologically goes back to the Great Silk Road uniting the countries into the Silk Road Economic Belt (SREB).

When formulating the tasks for the SREB project, the Chinese state authorities, firstly, considered the already existing economic priorities of the People's Republic of China in the region: ensuring the promotion of Chinese goods and the implementation of the “soft power” strategy through investment and trade cooperation to neutralize the fears associated with the Chinese expansion and creating a favorable public perception background for commercial projects.

China treats SREB as a comprehensive plan to promote its interests in the world as a whole, and especially in the neighboring regions. It is considered officially that these interests coincide with the interests of partners.

The initiative combines various projects aimed at development of transport and logistics infrastructure in several key geographical areas (Figure 1). Although the initiative includes up to six main routes, usually, the following three land routes of SREB are identified with the starting point in China – as the most extensive ones:

- the Northern Corridor, or the New Continental Bridge to St. Petersburg and Helsinki through Kazakhstan and Russia with the possibility of extension to Rotterdam;
- the Central corridor through Central Asia, which then branches into several directions: to Western Asia and the Persian Gulf, to Mediterranean countries (Turkey, Italy), and also to Western Europe (the port of Rotterdam);

- the Southern Corridor through the regions of South-East Asia and South Asia to the largest ports of Pakistan and Indonesia allowing easy access both to Indian and Pacific oceans.

Less commonly mentioned are the corridor China-Mongolia-Russia to the North, as well as parts of the southern corridor, with Bangladesh and Indochina becoming the end points [15].

In addition to the land routes of SREB, the OBOR initiative includes the "Maritime Silk Road of the XXI century" from China to Europe through the ports of Southeast Asia and the North of Africa.



Fig. 1. The main transport routes of the "One Belt – One Road" initiative [16]

Currently, more than 60 countries are involved in negotiations. Their economic and foreign policy interests are not uniform and do not always coincide. An analysis of experts' opinions and the documents describing the China's initiative made it possible to identify the interests of China and the actual goals of OBOR from the initiators' perspective.

1. *Expanding exports, which is an important factor in the development of the Chinese economy.* The project is designed to promote Chinese goods around the world. It requires reducing the transport gap between East and West, to cut down the cost of delivering goods. It will become a valuable economic driver for the territories that transport routes will pass. The leading role among the exports belongs to high-tech machinery, light and electronic industries with high added shipped to the countries of Central Asia [17]. The region sees railways being built here, compatible with the standards of China's gauge. One of the innovative aspects of the OBOR initiative is the construction of industrial and logistics centers that will later form industrial clusters in the countries of the SREB. China has built 56 economic cooperation zones in 20 countries [4]. Chinese companies are now involved in constructing facilities of an international cross-border cooperation center in Khorgos on the border with Kazakhstan which is becoming the largest inland port [18]. Construction also takes place in China. The project of creating the third integrated duty-free zone - Urumqi, in addition to Alatanhou and Kashgar - is nearing completion. All types of communications will connect Urumqi with Almaty, Bishkek, Tashkent, Samarkand, Tehran and other cities of the Road.

2. *Expanding markets for products and services of the new economy.* Within the framework of OBOR, the digital Silk Road is being formed. It implies rapid development of information and communication, e-commerce, Internet banking, smart cities, industrial computer networks. The Chinese e-commerce giant Alibaba Cloud plans to finance 14 data centers around the world, to promote Chinese companies doing business in countries along

the Road [19]. Data centers and other facilities are supposed to be equipped with 5G communication networks that are a thousand times faster than 4G networks. This effort will likely simplify processing of goods and lead to unifying of the customs formalities in 10 countries along the new Silk Road. Further development will provide for automating some of the operations in logistics, receiving information on the delivery of cargo in real time, and the introducing unmanned automobile and railway transport.

3. *Diversifying China's land export routes and decreasing dependence on the USA as China's most important trading partner.* According to the National Bureau of Statistics of China, the main export markets in 2015 were as follows (Figure 2): the USA (18.0% of the value of exports of China), Hong Kong (14.6%), Japan (5.6%), the Republic of Korea (4.5%), Germany (3.0%), Vietnam (2.9%), Great Britain (2.6%), Netherlands (2.6%), India (2.6%), Singapore (2.3%) [20].

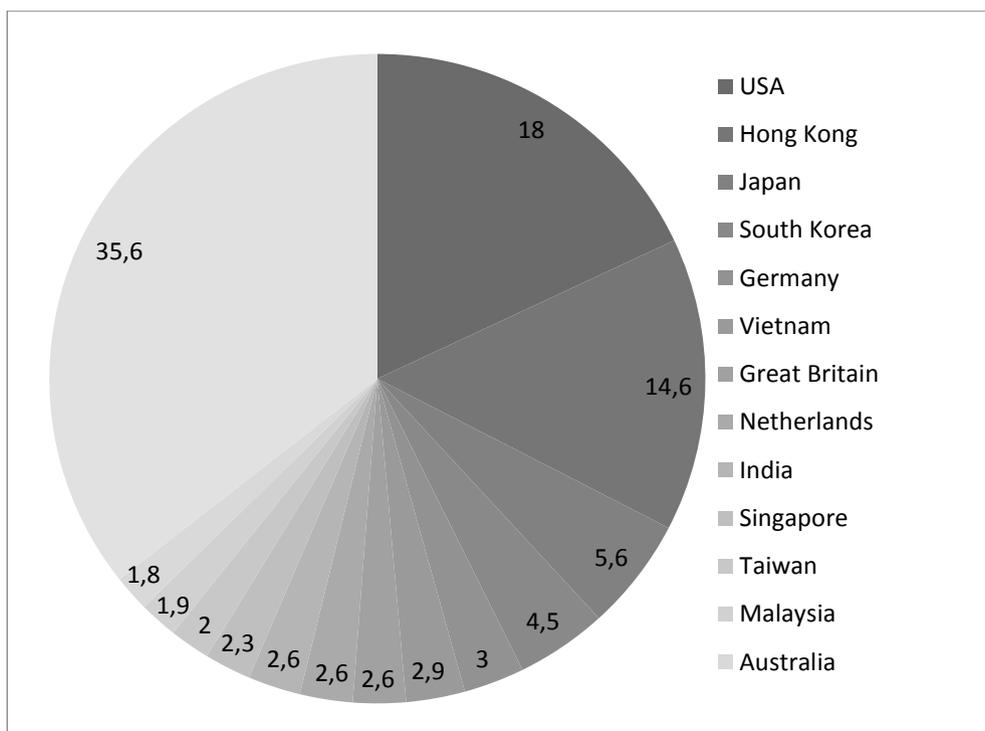


Fig. 2. Geographical Structure of China's Exports, 2015, % [20].

With most countries, China has positive balance of commodity exchange. But with a number of countries the negative trade balance remains, among them are: Japan, the Republic of Korea, Germany, Taiwan, Malaysia, Australia, and Brazil.

At the same time, the regional structure of China's total trade turnover in 2015 was characterized on the one hand by a certain decrease in the share of countries of Asia, Europe, Latin America, Africa and Oceania, and on the other hand an increase in the share of North America. China's foreign trade is 90% shipped by the sea, while the US military fleet controls the sea coast and at any time it can stop trade flows from China [21]. It can be assumed that the OBOR project has already begun to bear fruit. Thus, in the first half of 2017, compared to the same period of the previous year, the figures show impressive

growth of mutual trade with the EU (by 17.4%), Kazakhstan (by 46.8%), Russia (+ 33.1%), Poland (+24, 6%), and Pakistan (+ 14.5%) [22].

4. *Ensuring access of the PRC to the natural resources, and especially fuel-and-energy sector, of the countries of Central Asia and Africa.* China proves to be successful in diversifying its import purchases of energy commodities, developing the pipeline infrastructure of Eurasia. In the framework of the new Silk Road, oil and gas pipelines from Kazakhstan and Turkmenistan are being built on a mutually beneficial basis, allowing intra-continental countries of Eurasia to expand exports beyond their traditional region [23]. Chinese companies already control 25% of Kazakhstan's oil production. The initiative includes gas and oil pipelines in the Far East of Russia and in West Africa. Pipelines are designed and modernized with the participation of Chinese companies, mainly with the goal of obtaining access to seaports. The Silk Road Fund acquired shares of Russian oil and gas companies: Yamal LNG (the share of 9.9%) and Sibur (10%) in 2016. Besides China needs uranium to ensure the increase in the capacity of nuclear power plants. Currently, 75% of China's uranium imports fall on Kazakhstan [17]. Chinese companies consume more than half of Turkmenistan's gas exports, have concluded gas and uranium deals with Uzbekistan worth \$ 15 billion [3].

5. *Increasing foreign direct investment made by Chinese companies.* China moves from exporting goods to increasing outgoing investment [24]. In particular, China invested in Europe 4 times more in 2016 than European companies in China [12]. When implementing investment projects in countries along the new Silk Road, China strictly defends a controlling stake, a significant share in the ownership. It also strives to ensure the full, or at least exceeding 50% of local production, export of raw materials to be processed in China [17]. The OBOR initiative implements the PRC's global investment strategy, diversification of foreign assets, and the international expansion of large Chinese companies in the field of transport infrastructure [25]. Financing of the projects is provided from the Silk Road Fund of \$ 40 billion, as well as the China Import-Export Bank and the Asian Infrastructure Investment Bank are also involved in lending.

6. *Leveling the pace of economic development of the country's regions.* Projects of OBOR are aimed at reducing the concentration of the economy in coastal areas of China and its excessive dependence on maritime transit routes. The PRC is interested in realizing the potential of the western and north-eastern provinces, which requires land transport corridors development.

7. *Reducing pressure on the Chinese labor market suffering from the slowdown of the national economy.* China is pursuing the goal of creating new jobs for its citizens, therefore, contracts for establishing joint ventures abroad involve the involvement of the Chinese labor force. Thus, in 2015, 376 thousand people got jobs outside China contributing to foreign projects. The total number of Chinese workers of various occupations outside the country exceeded one million people [20].

8. *Forming the Chinese yuan currency zone in Central and South-East Asia.* Trade flows along the new silk route will be serviced by a financial system based on yuan. The PRC seeks to create a unique financial system that will unite regional development banks and provide for an increase in settlements in national currencies, primarily in yuan [26].

China's goals related to the OBOR initiative are obvious. It is an attempt to increase exports of goods and services overcoming discriminatory restrictions on Chinese investments imposed by the US. China is trying to integrate a huge economic space with its initiative. By simplifying the logistics of export shipments, China will get a new impetus to the country's economic development. The investments made by China will potentially change the direction of the economic development of the countries of Asia and Africa. At the same time, an increase in the volume of payments in yuans will put pressure on the US dollar rate.

The active promotion of the OBOR initiative is perceived by many countries as China's attempt to claim the role of an economic leader. To support that point, People's Daily (or Renmin Ribao) newspaper has noted that Western politicians consider the OBOR initiative a geopolitical tool used by China to ensure domination in the region and create a new sphere of influence, and the United States and Europe are afraid of losing their leading positions in the world financial system due to the strengthening of the yuan [27]. The authors can agree with the opinion that in the event of threats to its foreign investments, China will have to shift from a moderate style of conducting trade negotiations that seemingly has mostly prevailed before, to a more rigid one. The "slow but steady" tactics can thus change into more proactive ways to defend national interests [28].

The security problems are not being specifically addressed officially. At the same time a significant number of Chinese experts recognize the geopolitical importance of SREB for the country. It aims to promote regional security and stability which meets China's interests in developing trade and economic ties with its neighbors [29]. The Chinese interests mostly coincide with the interests of the Central Asian countries. Just like China, they are interested in their own economic development and political stability. In addition, China does not impose political conditions in the implementation of trade and economic cooperation.

China persuades the partners of the initiative that it provides for fair joint development, offers a path of peace, prosperity, mutually beneficial freedom of trade, as well as innovative and humanitarian cooperation. The prospect of implementing the OBOR initiative is realistic, as the projects included in it are tied to existing infrastructure and logistics facilities or at least the projects being implemented now.

4 Conclusion

It can be concluded that the trade vector along the ancient Silk Road was directed from East to West. China in the past was more developed economically and technologically and had an active trade balance with Europe for 1,500 years. Luxury goods for the European nobility formed the basis of the trade. Periods of booms of Eurasian trade occurred when the Silk Road was controlled by one major regional power or less often – several powers. Thanks to the Silk Road, the international market has developed getting advanced logistics and transport infrastructure, a system of international settlements, an institute of protection of foreign merchants' property rights, trading cities and customs points.

The OBOR initiative is the largest contemporary global project, unprecedented in terms of the scope of the declared objectives as well as the number of participating countries. At the same time, the tasks are determined by the strategic vision only of one country – China. Internal economic problems can be found behind the foreign economic interests in many respects. Given the slowdown in the growth rate of the Chinese economy of the recent years, it is obvious that such a large-scale project aims to support existing and create new production facilities and jobs in China, especially in the north-western provinces.

Summarizing the goals and objectives set by the PRC, one can recognize that, they should be reviewed from the point of view of China with its centuries-old history. In this regard, the OBOR initiative is the program plan aimed to regain the role of economic leader of the macroregion and even the world economy as a whole. The look at the project from such a perspective seems to give better understanding of the representatives of the "Central State". As it seems now, they have never taken seriously the claims of other countries and regions of the world to lead the global economy and civilization.

At the same time, general reference to the historical role of the participating countries in the development of the Great Silk Road is a powerful unifying factor for the states with currently different economic and political potential, such as the countries of Central Asia,

China and Pakistan. It seems that China is sometimes exploiting this trust while investing in Central Asia. Investors often insist on using Chinese technologies and labor in foreign projects while not all Chinese companies are ready to comply with local environmental legislation, safety, immigration and other regulations.

The main driver for the development of SREB for China is its economic interests: the need to provide its own economy with raw materials, extend the markets for its manufactured products, and create jobs for labor force.

One of the main threats to the implementation of the new Silk Road may be the discontent of China's trading partners with the current legislative barriers and restrictions imposed by China on the access to the domestic market for foreign companies. Those barriers don't correspond to the priorities of free trade and capital movement declared for the OBOR initiative. The policy of creating special economic zones inside China doesn't seem to provide equal benefits of cooperation to foreign partners who face China's external economic expansion. Imbalances in trade with major partners can become an obstacle in the development of trans-Eurasian trade and international movement of capital. In addition, rebranding of OBOR to BRI or B&R initiative may lead to negative consequences for the countries involved.

There is a risk that the OBOR initiative will not be implemented in the declared scope, remaining a set of separate projects. Given the historical context of the evolution of the Great Silk Road, which was almost never homogeneous and static, such a scenario seems quite real. However, this scenario will not signify a defeat for China. On the contrary, OBOR sets a sufficiently transparent, flexible and scalable framework for the development of Chinese business in foreign markets, the use of excess production capacity and labor resources.

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