

China-Mongolia-Russia Economic Corridor Boosts China-Mongolia Regional Cooperation¹

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Abstract: *The construction of “China-Mongolia-Russia Economic Corridor” serves the common interests of the three countries; it has already been acknowledged by Mongolia, Russia and other related countries and coordinated with their own development plans. For Mongolia, the coordination of “Prairie Road” and “China-Mongolia-Russia Economic Corridor” will boost the in-depth cooperation in several areas between China and Mongolia, and promote the development of export-oriented economy on the one hand, but also faces some challenges on the other hand.*

Key words: *China; Mongolia; China-Mongolia-Russia Economic Corridor; Regional Cooperation*

On September 11, 2014, during the Dushanbe Summit of Shanghai Cooperation Organization, President Xi Jinping, President Putin, President Elbegdorj held talks for the first time, deciding to dock China’s “the Belt and Road” initiative, Russia’s Eurasian Channel construction, and Mongolia’s “Prairie Road” initiative to build a “China-Mongolia-Russia Economic Corridor.” On July 9, 2015, during the Ufa Summit of Shanghai Cooperation Organization, the three heads state held the second talks, representatives of the three countries’ governments signed a “MOU on the Establishment of China-Mongolia-Russia Economic Corridor”, and confirmed the framework and roadmap of “China-Mongolia-Russia Economic Corridor Planning

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Outline” (hereinafter referred to as the “Planning Outline”). In June 2016, during the Tashkent Summit of Shanghai Cooperation Organization, the China, Mongolia and Russia governments officially signed the “Planning Outline”, which marked the first official launched multilateral cooperation planning under the framework of “the Belt and Road”. The “Planning Outline” not only set up the top-level platform for the three countries to strengthen the development of strategic docking and to deepen pragmatic cooperation, but also draw the blueprint for the construction of a new economic corridor across Eurasia⁴.

I. “China-Mongolia-Russia Economic Corridor” and Its Strategic Value for the Three Countries

The three countries hopes to realize interconnection of infrastructure construction through China-Mongolia-Russia Economic Corridor, to open up new single market, and form market integration chain of funds, energy and mineral development and sales. Once the docking of transportation network realized, the economic corridor will become an important channel connecting Russia, Mongolia and mainland China, as well as an important node connecting Asia and the heart of Europe, the location effect will be quite obvious.

China-Mongolia-Russia Economic Corridor will integrate China-Russia, China-Mongolia economic cooperation, promote regional economic development and trade expansion, and form a multi-channel, multi-level and multi-form economic cooperation mode, creating a win-win situation. First, to open up transnational channel of highway, railway and sea route. China-Mongolia-Russia Economic Corridor construction is conducive to joint development of energy and resources, speed up the personnel, goods flow of the three countries, achieve opening up of border areas. It also has great significance for the expansion of economic scale, and the promotion of the development of regional and external resources and market.

According to the related documents of National Development and Reform Commission, the Corridor is divided into two routes: one is from

4 National Development and Reform Commission, http://www.sdpc.gov.cn/xwzx/xwfb/201609/t20160913_818347.html

Beijing, Tianjin, Hebei, to Hohhot, Mongolia and Russia; the other one is Chita Route from Dalian, Shenyang, Changchun, Harbin, to Manchuria and Russia. The two corridors interact with each other to form a new open economic zone, collectively referred to as the China-Mongolia-Russia Economic Corridor. The specific path is to join the Silk Road Economic Zone with Russia's Trans-Eurasian Railway, and Mongolia's "Prairie Road", to strengthen the railway and highway interconnection construction, to promote the clearance and transport facilitation, to promote transit transport cooperation, to study cross-border transmission network construction, and to carry out pragmatic cooperation in tourism, think tanks, media, environmental protection, disaster relief and other fields⁵.

For China, the strategic significance of the Corridor is to deepen strategic partnership with neighboring countries, to include the mutual benefit and win-win diplomacy with the development of economy and the improvement of people's livelihood into an overall framework for regional development, which plays a significant role in adjusting the domestic economic structure and maintenance of stable surrounding areas, and promoting the formation of regional economic integration. At the same time, the construction of the Corridor is conducive to the domestic economic restructuring, resolving the surplus capacity and the economic transformation and upgrading, especially has great significance in the protection of energy and resource supply.

Mongolia, in the intermediate zone of the Corridor, has become an irreplaceable bridge for China-Russia trade and channel. Through the Corridor construction, Mongolia will be transformed, from a landlocked country into a convenient channel using the ports of China, Russia European countries, which will be conducive to the transportation of Mongolia's mineral resources and alleviate the bottleneck problem of its economic development. According to statistics, more than 80% of Mongolia's transport and trade turnover is realized by the railway. It can be said that Mongolia needs the help of China and Russia in the aspects of transit transport and sea ports. However, Mongolia's relatively backward infrastructure and its low efficiency have seriously restricted the development of foreign trade and economic cooperation. With the increase of Mongolia's foreign trade every

⁵ Shi Yanjun. "the Belt and Road" accelerating Six Economic Corridors Construction. *New Silk Road Horizon*, 2015(10).

year, it is urgent to speed up the infrastructure construction of railways, highways, waterways, aviation. For Mongolia, joining the construction of the Corridor, will not only promote economic development, but also open up transnational channel of road, railway and waterway. The rich mineral will not only be exported to Russia, Europe, but also to the broader market in the Asia-Pacific through China.

Russia is a country with rich resources, with natural resources such as oil, natural gas, coal, timber and so on. Russia is not only the world's most important energy strategic market, but also has a great strategic value of transit transport. Though under the background of political instability in Central Asia, South Asia, and the Middle East, "the Belt and Road" is facing obstacles, if the Russian transportation artery is opened up, not only will Trans-Siberian railway capacity be fully released, but also form a natural gas and electricity transport corridor with Mongolia as a transit country, this will help Russia to develop the world energy market, and build a new pattern of world energy.

II. The Construction of "China-Mongolia-Russia Economic Corridor" Accords with Economic Development Needs of both China and Mongolia

1. China-Mongolia-Russia Economic Corridor Accords with the Regional Cooperation Idea of Complementary Advantages

To establish the Silk Road Economic Belt with joint efforts, and construct China-Mongolia-Russia Economic Corridor is an initiative proposed by China, and also a common aspiration shared by China, Mongolia, Russia and other countries involved. The structure of economic development of China, Mongolia and Russia are highly complementary, the three sides have high interest need in terms of energy output, capital and technology support. The three countries all view domestic economic development as a priority, at the same time, standing in the strategic height to reshape the international new pattern, with the Belt and Road docking with Russia's Trans-Eurasian railway, Mongolia's "Prairie Road", strengthening railway and highway interconnection construction, promoting customs clearance and transport facilitation, promoting transit transport cooperation, and carrying out pragmatic

cooperation in tourism, think tanks, media, environmental protection, disaster relief and other fields, in order to create a new development zone through building a potential economic corridor. In this framework, the integration of China, Mongolia and Russia's "Silk Road" planning, and the establishment of friendly and cooperative relations of mutual support in regional security, trade and political interaction, will finally promote the formation of new development space for the Eurasian Community.

2. China-Mongolia-Russia Economic Corridor Accords with Strategic Direction of China-Mongolia Cooperation

Mongolia is a landlocked country located between China and Russia, its foreign trade is mainly achieved through China and Russia border ports. Northeast China and Inner Mongolia will be fully included in the Silk Road Economic Zone strategy, and become the forefront of the implementation of this strategy. The construction of China-Mongolia cross-border railway passage has made new breakthroughs. Along Silk Road Economic Belt, products will be transported to Europe via China, Mongolia, Russia, Belarus, Poland and Germany, the entire transport cycle only needs 18 days, at least 40 days less than the current East Asia and Europe port shipping cycle. Mongolia proposed "Prairie Road", on the one hand brings more investment and promotes industrial upgrading for the country, and the mining industry will be upgraded to a new level to revitalize Mongolia economy through transit trade; on the other hand, it also create conditions and development space for Chinese enterprise in coal, petroleum, railway, real estate, animal husbandry and other fields.

3. Good Relationship between China and Mongolia is the Basis of China-Mongolia-Russia Economic Corridor Construction

Geographically Mongolia and China are linked by mountains and rivers, and have a common border of more than 4,700 kilometers. Relations between the two countries have a long history, with mutual friendly exchanges and cooperation experience. There are no territorial disputes between the two sides, and no significant questions left over from history, which promote the development of the China-Mongolian relations. The political relations between the two countries are stable: as early as October 16, 1949, China and Mongolia have established formal diplomatic

relations, and signed the “Sino-Mongolian Friendship Treaty” in 1960. In 1994, the two countries revised and re-signed the “Treaty of Friendship and Cooperation between China and Mongolia”. Especially since the end of last century, with constant visits between the heads of the two countries, bilateral relations have been lifted to a new level, from the “good-neighborly partnership of mutual trust” to “strategic partnership”, which has become the foundation of comprehensive cooperation between the two countries.

4. China - Mongolia - Russia Economic Corridor Helps the Implementation of “Prairie Road”

Mongolia’s “Prairie Road” plan is proposed based on its geographical advantages, combining with their own national conditions. The purpose is to revitalize Mongolia’s economy through transit trade. With China’s “the Belt and Road” initiative to complement each other, the docking of these two strategies will strongly boost the implementation of Prairie Road. Prairie Road consists of 5 projects, with total investment demand of about \$50 billion, including: 997 kilometers highway connecting China and Russia, 1100 kilometers of new transmission lines, extending Trans-Mongolia railway, the expansion of natural gas and petroleum pipeline etc. The government of Mongolia believes that the implementation of this plan will bring more investment and promote industrial upgrading, energy and mineral industry in Mongolia will be upgraded to a new level. It is estimated that Mongolia will earn 200 billion MNT in 2020 by running oil and natural gas transit transport between China and Russia⁶. China and Mongolia can actively and effectively use the financial institutions such as AIIB and Silk Road Fund to finance “the Belt and Road” and “Prairie Road”. As Enkhsaikhan-the Minister of State of Mongolia-said, “AIIB can provide financing for the development of important projects in the region.”⁷

III. “China-Mongolia-Russia Economic Corridor” Assists Foreign Economic and Trade Cooperation of Mongolia

According to the “Planning Outline”, “Guided by the principles of equality, mutual benefit and win-win; based on the vision of expanding

⁶ “Mongolia Starts the “Prairie Road” Plan to Revitalize Economy”, China’s Ministry of Commerce, 2014-09-27, <http://www.mofcom.gov.cn/article/i/jyjl/j/201409/20140900746042.shtml>.

⁷ “The Belt and Road” Initiative helps Mongolia to Open up the “Prairie Road”. http://news.xinhuanet.com/2015-04/23/c_1115066487.htm. 2015-04-23.

cooperation space, giving full play of potential advantages, promoting common prosperity, and enhancing the joint competitiveness⁸”, a large number of key cooperation projects of 10 key areas are agreed on, including the infrastructure interconnection, industrial cooperation, port modernization, energy cooperation, the customs inspection and quarantine cooperation, environmental protection cooperation, science and education cooperation, cultural cooperation, agriculture cooperation, etc. The “Planning Outline” also proposed to give full play to the comparative advantage, give priority to sub-regional cooperation of the three countries adjacent areas, which will greatly promote Mongolia’s development of foreign trade and economic cooperation.

1. Seaway Constraint is Likely to Ease

For Mongolia, the biggest bottleneck of economic development is how to achieve channel construction of international trade in foreign trade, so as to reduce the costs of its mineral products, animal products to reach the hands of users on time. So far, almost all of Mongolia’s foreign trade and transportation is achieved through Russia and China border ports. Among them, the railway transport accounted for about 90%. A lot of economic and trade exchanges are transited through China’s Tianjin port. In addition, Brest port is also one of the options of the logistics channel, but compared with Tianjin port, more than 5,600 km haul distance is needed.⁹ It can be said that China and Russia’s ports are indispensable in transit transport. With the increase of Mongolia’s foreign trade every year, the need to speed up the construction of railways and other infrastructure is urgent. According to the general strategy of the construction of the Corridor, the first is the construction of the railway transportation routes. Transformation of existing lines, layout and construction of new railway projects, and some projects promoted by the nation, put forward by scholars are likely to be included in the planning. For example, Chita - Manchuria - Harbin - Suifenhe - Vladivostok (port)- Russian Trans-Siberian Railway line; Ulan Bator - choybolsan - ArxanShan - Hunchun - Zarubino line, etc. For Mongolia, joining the construction of the Corridor”, not only will open up transnational

⁸ National Development and Reform Commission http://www.sdpc.gov.cn/xwzx/xwfb/201609/t20160913_818347.html

⁹ Ruan Xiaodong. Co-construction of China-Mongolia-Russia Economic Corridor. *New Economy Weekly*. 2015(9).

channel in land, railway and seaport, and promote economic development, but also will greatly accelerate the development of Mongolia's foreign trade and economic cooperation.

2. Mining Industry is Expected to Achieve Leap-Forward Development

Mongolia has 80 kinds of mineral resources, the proven reserves are coal, copper, tungsten, fluorite, gold, silver, molybdenum, aluminum, tin, iron, lead, zinc, uranium, manganese, phosphorus, salt, oil, with a total of 1170 mines, more than 8,000 open-pit mine. Among them, the gold ore reserves are 16.19 million tons, silver ore 227,000 tons, copper ore 36.3 million tons, iron ore 660 million tons, zinc ore 5.9 million tons, oil about 250 million tons, coal about 175 billion tons.¹⁰ Since 1990s, Mongolia has accelerated the pace of developing mining industry, its output value accounted for more than 20% of GDP, and more than 50% of the total foreign trade. At the beginning of this century, the government of Mongolia has formulated and implemented the strategy of "Mining Rejuvenating", aiming at enhancing the infrastructure construction and national economic development by strengthening the investment and the large-scale projects. On January 9, 2014, the revised and updated "Law of Generally Distributed Mineral Resources", explicitly stipulated that the foreign investor's rights are protected by Mongolian laws and regulations, and to provide a good environment of services and investment for foreign investors, as well as a number of preferential policies

3. Foreign Cooperation in Agriculture and Animal Husbandry is Expected to Reach a New Level

Mongolia has rich land resources and natural grassland, the development potential of agriculture and animal husbandry is huge, but there are some problems, such as low development level of husbandry, inadequate infrastructure, and backward production technology. From the point of view of animal husbandry, as Mongolia's traditional industry, the output value accounts for 80% of the total of agriculture and animal husbandry. At present, Mongolia each year still needs to import large quantities of meat and milk to meet domestic demand: agriculture, though not a pillar industry of the national economy, given great importance by the government, with the

¹⁰ N. Altantsetseg. Chances and Challenges for Mongolia under "the Belt and Road" Strategy. Collected Works of Construction of "the Belt and Road and Heilongjiang Comprehensive Revitalization Forum", p57-59, 2016.6.15

total output value accounted for 20% of agriculture and animal husbandry output value. Main crops are wheat, potatoes, cabbage, radish, onion, garlic, rape, etc., grain and vegetables rely on imports. For the animal products processing, Mongolia's cashmere& wool industry is the third largest export industry, more than 1/3 of the population living on the income of the cashmere industry. But problems such like high production cost, mature machinery supply shortage have seriously affected the development of cashmere industry. In the background of the construction of China-Mongolia-Russia Economic Corridor, and during the critical period of the implementation of the "third revitalization of planting industry" in Mongolia, the two countries have broad prospects for cooperation in the new agricultural technology, animal husbandry, livestock products processing, farming and other fields. On the one hand, Mongolia's natural ecological environment lays a good foundation for the development of agriculture and animal husbandry; on the other hand, China not only has mature technology of agricultural production, but also relatively mature agricultural products deep processing technology. Therefore, the cooperation between the two countries in the agriculture and animal husbandry has considerable potential.

4. Tourism is Expected to Become a Pillar Industry

Mongolia is one of the countries that have original ecology, very suitable for the development of modern tourism with grassland, forest, hills, rivers, lakes, deserts, and so on. At the same time, with a long history and culture, Mongolia still keeps the nomadic landscape and culture and it is a multinational country with Khalkha Mongolian as the main body of the nation. A tourist attractions network centering on Ulaanbaatar has been formed, suitable for grassland cultural experience tourism projects. Mongolia's tourism industry is a pillar industry of priority development. Mongolia can give priority to attracting Chinese tourists, and share economic development benefits of China's for the neighboring countries. With the deepening of China-Mongolia cooperation, and the constant improvement of railway transit infrastructure, Mongolian tourism will become a new hot spot.

IV. Possible Problems in the Process of Constructing the “China-Mongolia-Russia Economic Corridor”

1. Challenges from the Strategic Suspicion to the Construction of China-Mongolia-Russia Economic Corridor

Some people whether in Russia or in Mongolia hold skeptical attitude to the strategic intent of the initiative of China-Mongolia-Russia Economic Corridor. Some Mongolian thinks that China will gradually implement his expansion plans, plunder the resources in Mongolia and annex the Mongolia finally by implementation of the China-Mongolia-Russia Economic Corridor. This is a major challenge in the construction of China-Mongolia-Russia Economic Corridor.

2. The Restriction Formed by the Objective Factors in the Construction of China-Mongolia-Russia Economic Corridor.

The infrastructures are not perfectly developed in the most areas of Russia & Mongolia covered by the China-Mongolia-Russia Economic Corridor. The pace of infrastructure construction in the border area of the three countries is relatively slow, which affects the speed and efficiency of customs clearance. The trains have to re loading at the border due to the different standard of gauge railway adopted by the three countries, resulting in unnecessary waste of manpower and material resources. Due to the sparse population and labor shortage in Mongolia and the Siberia and the Far East area of Russia, Chinese enterprises will be forced to input labor form China, which increasing the operation cost. What’s more, local technicians are hard to meet the needs of Chinese enterprises. Besides, the different policies of import and export commodity management, technical barriers, customs clearance, and inspection adopted by the three countries impact the rapid development of import and export trade and also the construction of China-Mongolia-Russia Economic Corridor.

3. The Difference in Corporate Governance System

It is easy to go global but hard to stand firmly for Chinese enterprise. China is the largest investor for Mongolia and there are more than 6000 Chinese enterprises in Mongolia according to statistics. Most of the conflicts between Chinese enterprise and Russian, Mongolia are occurred in the environmental barriers and social responsibility barriers. “Environmental

pollution” and “human rights” are the main reasons for being resisted or even being expelled of Chinese enterprise. The reputation of Chinese enterprise is affected and local discontent is caused directly by lack of qualifications, imperfect management system, weak environmental awareness, unfamiliar and disrespect to the local people’s customs and habits, poor product quality, and intellectual property problem, which stunted the construction of China-Mongolia-Russia Economic Corridor.

4. China, Mongolia and Russia are neighbors, but belong to two different civilization systems which led to the differences in morality, idea, language, religion, custom and so on in the three countries and then may cause a lot of possible misunderstanding in the construction of Economic Corridor. The three countries will hold different views on negotiation styles and goals due to cultural differences, which directly affect the final outcome of the negotiations, thereby affecting the construction of Mongolia and Russia economic corridor.

V. Major Suggestions on Promoting China-Mongolia Regional Cooperation

1. To Strengthen the Guiding Role of the Government, to Strengthen Mutual Visits and Enhance Exchanges.

By now, China and Mongolia have accumulated some experiences in the development of regional economic cooperation. The future goal of further cooperation should be determined accurately under the consensus of constructing the China-Mongolia-Russia Economic Corridor. Government should consider the prospects of regional economic and trade cooperation between the two countries in a higher and more long-term perspective. It is the key to promote effectively the development of regional economic cooperation in Mongolia by improving cooperation consciousness, increasing the government’s guiding role, creating a friendly and good neighborly relations atmosphere. Government-led official high-level visits are suggested. International conferences, such as Northeast Asia Economic Forum & China-Mongolia-Russia High-level Forum, should be increased so as to promote mutual understanding. To strengthen dialogue and form new economic cooperation & exchange mechanism between the central

governments and the local governments by using the existing cooperation mechanism & platform in China, Mongolia and Russia government and various departments so that the doubts and confusions can be eliminated.

2. To Clarify Strategic Planning and Improve Investment and Cooperation Environment

With the deepening of regional economic integration and docking “The Belt and Road” Initiative and construction of Prairie Road planning, new challenges and opportunities will be brought in the development of regional economic cooperation. A perfect institutional framework is a solid guarantee to carry out regional economic and trade cooperation between China and Mongolia. The two governments should develop a long-term overall planning and ensure the long-term effectiveness of the plan under the combination of their own advantages. More strategic thinking should be paid in the promising fields, such as infrastructure construction, mineral resources development, civil engineering and so on. Both sides should improve their laws, regulations, investment & cooperation environment, communication so that to provide a good environment and security for both investment and business.

3. To Deepen Industrial Cooperation

First, a consensus should be reached on deepening industrial cooperation and promote mutually beneficial & win-win. A consensus is the basis for the promotion of friendly exchanges and the promotion of sub-regional economic cooperation, and also it is an important means to build a safe, fair and long-term cooperation platform for enterprises and businesses. Second, Industrial cooperation is the basis for bilateral economic and trade development of China and Mongolia. China and Mongolia have generality in their cultural origins, customs while having differences in factor endowment, the level of economic development, industrial structure, income. The differences between two countries are the basis for industrial cooperation, especially in the fields of exploration and exploitation of resources and energy, agricultural planting, animal husbandry and aquaculture, light industrial development and industrial production. Third, the industrial cooperation needs the policy support of the government, the intellectual support of experts and scholars, the coordination and

communication of related industry Association, and especially the practice and innovation of business people.

4. To Carry Out Border Trade Cooperation Actively and Build a Cross-border Economic Cooperation Zone

Due to the constraints of political and economic, the bilateral economic and trade cooperation of China and Mongolia has never made a major breakthrough for years. New cooperation mode should be innovated with the aid of favorable opportunity of current harmonious political relationship of China and Mongolia. Construction of China-Mongolia border economic cooperation zone is one of the important options. From the point of view of development, since the most advanced facilities and the most superior geographical location among all docking ports between two countries, Erenhot port in China and Zamyn-Uud port in Mongolia are very suitable for establishment of cross-border economic cooperation zone. Besides, based on cross-border information platform and cross-border e-commerce platform, the border trade cooperation should be carried out and new cooperation field should be expanded actively so that the complementary advantages of the two countries can be fully transformed and the linkage development can be achieved.¹¹

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