

## **MONGOLIA'S FACTOR IN THE NEA REGIONAL COOPERATION<sup>1</sup>**

*Prof. Baatar Ts.<sup>2</sup>*

Current “China-Mongolia-Russia Economic Corridor and Northeast Asia regional cooperation” Forum is taking place at the right time, at the age when the Northeast Asian economic integration is developing rapidly and it is vivid from the point of view by many scientists that the twenty first century is about to become an era of Asia-Pacific.

As for Mongolia, we have experienced many socio-economic changes in past twenty years along with a transition to market economy, evolvement of human freedom and of diverse ideology.

At the dawn of this new century, it is alt so clear that the ever growing process of globalization, progress of science and technology. Increase of productivity, as well as cooperation’s between the financial institutions, banks and national corporations around the world are bringing us even closer. At the age of global integration, it is vital for many countries to make right choices in terms of foreign economic policy in order to match and blend their own economy into the worldwide integration. As for today Mongolia faces a lack of internal resources to fully sustain a stable economic growth, thus to provide her national security and as a matter of fact, it is important for us to expand our relations with the outside world in order to compensate our internal lack of financial and moral essentials. Therefore, for such countries, they are keen to join this comprehensive economic integration.

---

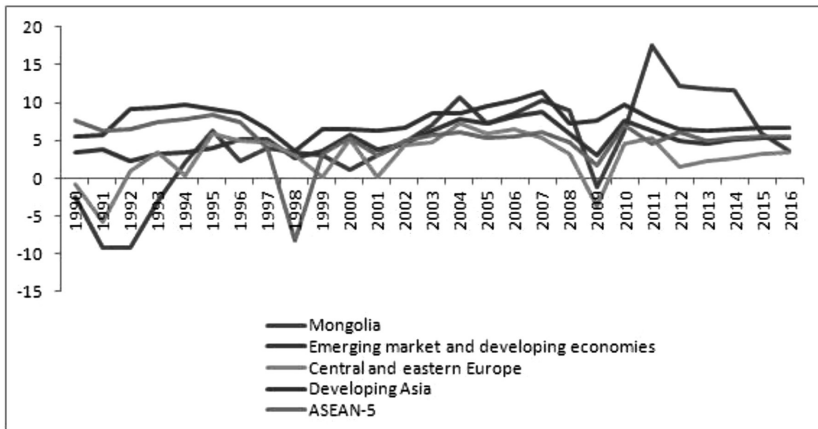
<sup>1</sup> Paper presented to the “China-Mongolia-Russia Economic Corridor and Northeast Asia regional cooperation” International Forum, 13-14 October, 2017, Huhehot, Inner Mongolia, China

<sup>2</sup> Sc.D, Senior Research Fellow, Institute of International Affairs, Mongolian Academy of Sciences

With no doubt, Northeast Asia is considered to be as an important one in terms of geopolitical strategy. In this region we have the key players of regional activity such Russian Federation, Japan, China, South Korea, Mongolia and the North Korea as well as USA.

Regional integration offers Mongolia the opportunity for a more prosperous future. But the country has lagged in this effort, which is surprising given its geographical location where bold integration initiatives have been launched, such as the People's Republic of China's (PRC) "Silk Road Initiative," and where economic alliances have been strengthened under Central Asia Regional Economic Cooperation (CAREC) and NEA cooperation. It's to bush up China-Mongolia-Russia economic corridor.

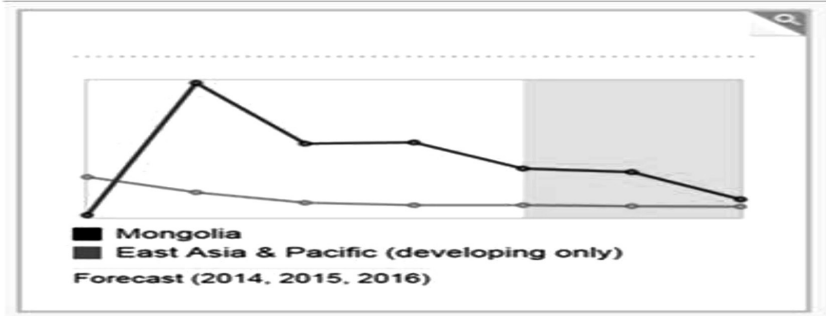
### **Comparative GDP growth, 1990-2016**



*Source: World Economic Outlook Database, October 2013.  
2012-2016 figures are IMF estimates.*

Mongolia faces great economic challenges. It is dependent on the PRC and Russia because of its close economic ties and geographical "sandwich location" between its two giant neighbors. Additionally, Mongolia has experienced volatile growth due to falling global commodity prices and controversies with foreign investors. The Mongolian economy has therefore not developed as well as expected—a trend that can be redirected to a positive direction via sound regional integration.

**Annual GDP Growth (%)**



*Source: World Bank*

Another key aspect for regional integration is Mongolia's geographical position in the heart of Northeast Asia separating the Russian providers of energy and mineral resources from the PRC's industrial and private consumer market (the PRC is Russia's most important trade partner). Mongolia's huge landmass also divides the PRC's industrialized provinces in the northeast from the less developed regions in the northwest. Most Russian-PRC trade transits Mongolia, by limits set by the poor Mongolian railway and road infrastructure. But taking visions such as the Silk Road Initiative into consideration, there is great potential for Mongolia's economy if it can upgrade, at least its infrastructure into a central East Asian traffic and pipeline junction for trade and transport from north to south and from east to west. Mongolia lacks the financial resources for such a comprehensive modernization and expansion of its infrastructure. But in view of the immense investment powers next door, especially in the PRC, Japan, Korea, and Russia, a regional integration initiative on transport and energy infrastructure could attract investors and financial resources.

The current era of economic globalization and interdependence of nations is growing. Today, not only does China have a significant influence on the global economy but it also has a major impact on the developing Asian economies, as well as, on its neighbor Mongolia.

Now days Mongolia has the opportunity to build a network of FTAs among its key trade partners. Mongolian government working with trade partners to build network of FTA/EPA. First time under the Mongolia and Japan, within the framework of their Strategic Partnership, in 2010, decided to sign a bilateral Economic Partnership Agreement or EPA. EPA talks and negotiations began in 2012 and for almost 3 years there were 7 rounds of negotiations, during which an agreement in principle was reached and the Prime Ministers of the two countries signed the “Mongolia-Japan Economic Partnership Agreement” on 10 February 2015, which was ratified by the Parliaments of the two countries on 7 June 2016. Its aim is to promote and boost trade between the two countries, reduce tariff and non-tariff barriers, and simplify customs regulations. Second, increasing of investment, streamlining of legal environment, and enhancing of the ethical standards of civil servants will also have a positive effect on EPA implementation. Third, it would be important also to carry out technological renewal, ensure the standard of goods and products for export to Japan, and create a sustainable production capacity, and fourth, if the question of transit transportation is addressed then it would be possible to export manufactured goods to the Japanese market. From among these, transit transportation and logistics are issues that need to be discussed and addressed in negotiation with the neighboring countries, and which would have a most important impact on the overall success of the implementation of Mongolia-Japan EPA.

With regard to Mongolia, the goal of the agreement was to increase investment opportunities, and to increase value-added export and foreign exchange revenue. The EPA outlined a most extensive area of cooperation including agriculture, forestry, fisheries, manufacturing industry, small and medium enterprises, trade and investment, infrastructure, science and technology, intellectual property, financial services, education and human resource development, mining and energy, health, information and communication technology etc. Under the EPA, customs duty on 9,300 goods for import from Japan and close to 5,700 goods for export from Mongolia, that have World Trade Organization customs code, will be liberalized in stages which is expected to cut down on exports and import costs for the businesses of the two countries. Mongolia, first and foremost, is interested in introducing Japanese hi-tech,

management and work methods in its economy, while Japan is interested in buying commodities and agricultural products, such as meat, wool and cashmere from Mongolia.

Now Mongolia and Republic of Korea's joint feasibility study for EPA was finished. Next year will the start negotiation. Now Mongolia is studying the possibility on entering to Eurasian Economic Union and feasibility study of free trade agreements with the People's Republic of China.

Second, creating a Northeast Asia Free Trade Association (NEAFTA) is important on political agendas-although the NEAFTA seems to be interpreted in different variations: the NEAFTA model of Japan, Korea, US versus the NEAFTA model of Japan, Korea, PRC versus a comprehensive NEAFTA model proposed by the PRC with the PRC, Japan, both Koreas, Mongolia, and Russia. The first two NEAFTA models have in common that they contain only powerful and heavily industrialized economies where relatively low developed Mongolia, with its narrowly focused economy of minimal industry and a small market, would not fit in. Apart from that, the first model excludes the PRC, Mongolia's biggest trade partner whereas the second model is burdened with multidimensional controversial interests and with complex historical and territorial disputes, which form challenging obstacles for a speedy and successful realization.

Otherwise Mongolia runs the risk of falling behind as an underdeveloped and isolated "white spot" on East Asia's dynamically advancing economic integration map.

To enhance regional integration in our immediate region of Northeast Asia, Mongolia is actively engaged with its neighbors on transit transportation and infrastructure development. In June 2016, the Presidents of Mongolia, China and Russia signed an agreement to develop a program on China-Mongolia-Russia Economic Corridor. It will focus on the implementation of joint projects to increase trade turnover, ensure competitiveness in goods supply, facilitate cross-border transportation and develop infrastructure. End of August, 2017 the three said agreed on the priority projects, such as high way, railroad construction. At present in the process of setting up a mechanism to coordinate the actual implementation of the projects along the Economic Corridor.

Also December 2016, China, Mongolia and the Russian Federation signed the Intergovernmental Agreement on International Road Transport along the Asian Highway Network, marking another major step in trilateral cooperation.

Meanwhile Russia is concerning that Euro integration could provide Mongolia with the opportunity for a prosperous future. But the answer to the question of how to realize that regional integration is a complex one.

Mongolia- China-Russia relations entered a new era of economic cooperation that will be vital to Mongolia's economic recovery and long term stability. Mongolia has long aspired to become a logistics and financial center, using its location in North Asia and proximity to Chinese and Russian markets to its advantage.

We, Mongols are aware that the excellent relations between Mongolia, China and Russia have to deal, first of all, with the dramatic improvement of ties between Russia and China at the beginning of 21 century.

Trade and transportation network is a key to international economic partnership. For landlocked Mongolia, cooperation with its neighbors and access to seaports through their transportation networks, and planning its transportation networks are critical. Planning results shall be and research work results shall be a key to transportation networks policy, prioritizing projects, and economic cooperation policies. Government organizations could adopt the research results. Prioritization of key projects will be helpful in efficient management of investment; Mongolia's regional development will be supported.

Mongolia, China, and Russia are highly complementary in economy field. The economic complementarity and integrating degree are the basis for deepening the cooperation among three countries. The economic technology and market structural difference that exist between Mongolia and other two neighbors evidence high possibility for integrating about three countries. Moreover, potential still exists between three countries in terms of economic interdependence, mutual correlation, and bilateral economic compromises.

Mongolia-China-Russia economic corridor provides opportunities to fully develop all advantages of each country in a better way. Also provides

opportunities to build the economic-trade cooperation zone and upgrade the opening policy to the outside world.

This corridor provides opportunities to speed up constructing the channel connecting the Eurasia economy and trade sea-land multimodal transportation. Their late-mover advantages are pretty strong, but the shortage of infrastructure, such as traffic, electric power, and information, etc. needs to be solved immediately. By focusing on the process of accelerating investment facilitation, eliminating the barriers of investment, strengthening the bilateral investment protection agreement, and avoiding interrelated double taxation. First, is to develop industry cooperation among three countries in terms of energy, mineral, and electricity; by accelerating the construction of trans-border electric power and transmission, and then actively promoting the clean and renewable energy cooperation, such as natural gas and solar energy. Second, promoting the industry cooperation in agriculture and animal husbandry, water resources, ecological protection, new-generation information technology, biological pharmacy, new materials, etc. Third, speeding up the construction of “single window” at border ports; developing the new commercial industry of trans-border e-commerce. Fourth, strengthen the cooperation on construction of free trade area and improvement on condition of customs clearance, to accelerate the industry development and trade.

Mongolia-China-Russia economic corridor provides opportunities to the think-tank alliance cooperation and public diplomacy development.

Every country’s think-tank undertakes the mission of promoting national developing strategy and the responsibility of performing public diplomacy and enhancing the national soft strength. At present, the think tank is facing numerous challenges.

Mongolia is keen to further work together with our two neighbors and other partners to improve rail, road, air, energy networks and pipeline infrastructure and increase access to the sea.

#### Perspectives of Mongolia and NEA cooperation

Mongolia’s State Policy on Energy, adopted in 2015, set an ambitious goal to produce 30 per cent of its energy demand from renewable resources by 2030. Our solar and wind resources are estimated at 7000 TW (terawatt)

and 5000 TW respectively. With these resources, Mongolia has basically unlimited potential to export clean energy to countries in our region. The Mongolian government should pursue such plans actively. Executing these energy cooperation plans will not only benefit Mongolia, but also promote economic integration and better international relations in Northeast Asia at large.

We are working with our partners to implement the Gobi Tech and the Asian Super Grid projects to supply renewable energy for the Northeast Asia. The projects offer countries in the region a wide range of economic, social and environmental benefits including energy security, job creation and reduction of carbon dioxide emissions. We look forward to working together with our bilateral and multilateral partners on these important projects. For instance a Technical Assistance Project on Strategy of Northeastern Asian General Power Grid Network has commenced implementation at the initiative of the Mongolian Ministry of Energy and the Asian Development Bank. The project research will focus on the details of how to connect Mongolian energy resources with the power grids of other countries in the region. Electricity De France, a leading electric utility company of Europe, is executing the research. Six meetings will be organized in the course of implementation of the 25-month project, with attendance of counterparts from China, Russia, Japan and South Korea. These meetings are of great significance in increasing the share of clean energy in the regional power grid, improving efficiency and the understanding between the counterparts. A general image of the regional power grid with enormous contribution by the rich renewable energy sources of Mongolia is expected to become visible with the mobilization of this project. Mongolia's role in the region is significant but we need to conduct to detailed research to clarify the road ahead. Prospects for future China-Mongolia supplies of energy equipment which now headed by China's largest power distributor strengthen energy cooperation and promoting development of a cross-border power grid to serve Northeast Asia.

Earlier this year, the Japanese telecom and energy conglomerate Softbank initiative feasibility studies on multinational power grid interconnection involving State Grid of Mongolia, PJSC Rosset in Russia, and Korea Electric Power. Governments in the region including Mongolia

are being asked to support the proposed project, for which no timetable has yet been announced.

Mongolia and China may work together to establish a regional power grid if they agree to a proposal for a jointly built and operated power plant at Shivee Ovoo. In April, the two sides agreed to study the feasibility of the USD 12 billion construction project, State Grid said, which would provide 25,000 jobs and take five years to complete.

The statement said, that the Mongolian government “has proposed to establish a Mongolia-China-Russia Infrastructure Research Centre to promote cooperation in highways, railways, aviation and energy.”

Mongolia is building power plants in the hope of weaning itself from the need to import electricity from China and Russia to meet domestic demand, according to a 2015 report by the Oxford Business Group.

State Grid of Mongolia noted above could involve a rich coal are, with proven reserves of 152 billion tons, that could be tapped to fuel future power stations.

Mongolia has its place in the current developments of regional cooperation not only due to its location among the two great nations of China and Russia but also because of rising interests in Mongolia from number of nations due to its geopolitical traits and economic relationship between two neighboring nations. Mongolia had proactively created a Development Pathways initiative to support and simultaneously connect to the initiatives promoted by the regional countries, announced that Mongolia will become a Transit Nation, Development Pathway initiative consists of five pathways: highway, roads, railways, electricity transmission lines, and gas\oil pipelines.

Mongolia’s initiative must be science and research –based, in terms of:

- Infrastructure planning for border points, roads, and railways of Mongolia, China and Russia; research and studies for international freight and transportation directions.
- Determination of transport capacity of road and railways up to 2020 under the Economic corridor initiative;

*Mongolia's factor in the NEA regional cooperation*

- Determination the ways to participate in China's OBOR and Russia Trans-Eurasian transportation corridor;
- Conducting the researches for developing transportation network under Economic corridor initiative;
- Determination the ways to participate in China's OBOR and Russia Trans-Eurasian transportation corridor
- Determination how to distribute energy in the NEA

Result of the studies will determine the changes and economic level that Mongolia will achieve. Development of transportation networks under Great Tumen Initiative will bring economic benefits to numerous industries such as trade and tourism. At last, to conclude, -The current development of cooperation NEA is lagging behind the cooperation in Central Asia and in directions to Europe and hope to expect constructive ideas, initiatives and reconditions from the scholars.