

Coordinating “The Belt And Road” and “Prairie Road”: A Reciprocal and Win-Win Road For China and Mongolia

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Abstract: *Many relevant countries have responded to or participated in China’s “the Belt and Road” Initiative, including Mongolia; while Mongolia’s “Prairie Road” strategy is based on its own economic development. China has established comprehensive strategic partnership with Mongolia, under the circumstances, the interconnection between “the Belt and Road” and “prairie road” between the two strategies, will certainly promote cooperation to upgrade in various fields, as well as achieve the profit maximization of both countries. In the future cooperation, we need to specify cooperation projects, the objective evaluation of the existing problems of the two strategies, will have a positive impact on the future cooperation between the two countries.*

Key words: *“the Belt and Road”; “Prairie Road”; Interconnection; China; Mongolia*

I. The Strategic Connotation of “the Belt and Road” and “Prairie Road”

1. China’s “the Belt and Road” Initiative

Since ancient times, “Silk Road” is the main road of economic, political and cultural exchanges between the East and the West, and also a trade route connecting Asia, Africa and Europe. In 2013, the state leaders of China put forward “the Belt and Road” initiative, which is, “the Silk Road Economic Belt” and “the 21st-Century Maritime Silk Road”. Overall, “the Belt and Road” is a major project that is guaranteed by the policy communication,

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with facilities connectivity as a priority area, trade flow as the key content, financing as the important support, people's connection as the social foundation; as well as a new Community of Destiny that is formulated by neighboring countries and finally realizing common prosperity. The main purpose is infrastructure construction through interconnection, and platforms as Asian Infrastructure Development Bank and the Silk Road Fund, to expand foreign investment and strengthen regional economic integration. Different from the traditional regional cooperation mode, "the Belt and Road" has no specific geographical framework, clear starting point and end point.² Through the establishment of a huge potential market along the Silk Road, the strategic partnership between China and other countries will be comprehensively promoted. "The Belt and Road" strategic cooperation projects will improve the transportation efficiency, save freight, and open up a new logistics pattern. The construction of "the Belt and Road" not only will expand cooperation between China and Asia, but also speed up the trade and cooperation with Europe, and provide opportunities for the development of economy of these countries.

2. Mongolia's "Prairie Road" Planning

In 1990, in order to promote the development of Mongolia's economy, the government of Mongolia started to promote the construction of highway facilities. In 2000, the government of Mongolia put forward the project of "Millennium Highway". In 2008, "the Outline of Mongolia's Development of National Transportation" is put forward, and in 2011 the Great Khural of Mongolia formally adopted the Outline. In 2012, the government of Mongolia put forward the construction plan of "Prairie Silk Road". The plan consists of 5 projects, including the construction of a 997 kilometers highway connecting China and Russia, the electric line of 1100 km, etc. The total investment demand is about \$50 billion. According to forecast of the Ministry of Economic Development of Mongolia, once the prairie road projects start running, GDP will increase \$10 billion per year, on the basis of the existing \$10 billion³.

In September 2, 2014, the government of Mongolia formally established the special working group of the "Prairie Silk Road", responsible

² Yuri Tavrovsky, the Silk Road Returning World Map, The Independent, 2014-09-01.

³ Тавантолгой, Оюутолгойтой тэнцэх "Талын зам", 2014-06.

for promoting the implementation of the project, and included the major project into national development strategies. During the visit of President Xi Jinping in Mongolia, he said: “China is ready to work with Mongolia to strengthen the cooperation under the Silk Road Economic Belt Initiative, with a positive and open attitude to the “Prairie Road” initiative. The two sides can strengthen cooperation in Asian Infrastructure Investment Bank and other new platforms, to achieve common development and common benefit”⁴.

II. Coordinating “the Belt and Road” and “Prairie Road” Conforms to the Interest of Both Countries

China and Mongolia have a common boundary line of more than 4700 kilometers, the relations between the two countries has a long history. As early as in October 16, 1949, the two countries formally established diplomatic relations, and in 1960 signed the “Sino-Mongolia Treaty of Mutual Assistance”. Especially in recent years, the frequent visits of the leaders of the two countries show that the bilateral relations have entered a new stage of development, from the “Good Neighborly Partnership” to “Strategic Partnership”.

First, “the Belt and Road” and “Prairie Road” are active countermeasures under new situation.

Under the situation of weak global economic recovery, and structure adjustment and transformation of domestic economic is crucial, it is inevitable for China and Mongolia to seek cooperation. For China, in the critical period of economic development has entered the crucial period of restructuring, transformation and upgrading, strengthening export-oriented economy is an active countermeasures based on the reality of Chinese economic slowdown. “The Belt and Road” is an important part of the deepening of reform and opening up, and needed medicine that deepens cooperation with the surrounding countries and the European and Asian countries. For Mongolia, affected by the decline in major international commodity prices, Mongolia’s economic growth reached the peak of

⁴ Joint statement on the Establishment and Development of a Comprehensive Strategic Partnership between People’s Republic of China and People’s Republic of Mongolia. People’s Daily, 2014-08-22.

17.3% in 2011, the decline was significant. In 2012, it was 12.3%; 2013, 11.8%; and 2014, 7.8%. Although the Mongolian government launched the “hundred-day economic stimulus plan” in May 2014, intending to solve the economic difficulties through reform of tax system, promote national industrial products, reduce unnecessary imports and other measures, the situation of high inflation, rising prices, increasing pressure on foreign debt, foreign trade growth rate reduced, and foreign investment dropped still cannot be changed. In 2015, the total trade value between Mongolia and the world’s 147 countries and regions amounted to \$8 billion 467 million, a 23.1% drop; the total exports is \$4.67 billion, a 19.1% drop; imports \$3.797 billion, a 27.5% drop⁵. The government of Mongolia has been trying to adjust the national economic strategy to achieve sustained and stable economic growth. The “Prairie Road” is an important step in its economic strategy adjustment. China is Mongolia’s largest trading partner and investor, how to strengthen the China-Mongolian economic and trade cooperation is crucial. Therefore, strengthening mutually beneficial cooperation is a consensus between the two countries.

Second, economic cooperation between China and Mongolia is faced with transformation and upgrading.

Since the two countries established the good-neighborly partnership of mutual trust in 2003, especially in June 2011, the two sides decided to enhance bilateral relationship to strategic partnership, the bilateral economic and trade cooperation has gained strong momentum. The two countries have made considerable progress in cooperation in mineral resources, energy, ecology, environmental protection, high technology, infrastructure construction, finance and other fields. According to data of Economic and Commercial Counselor’s Office of China in Mongolia: in 2015, Mongolia’s total trade with China is \$5.3 billion, a decrease of 22.5% compared with the same period last year, accounting for 62.6% of its total foreign trade. Among them, exports to China is \$3.91 billion, a decrease of 22.9%, accounting for 83.7% of its total exports; imports from China is \$1.39 billion; a decrease of 21.4%, accounting for 36.6% of total imports. China has become Mongolia’s largest trading partner and source

⁵ “The Overall Situation of the National Economy in Mongolia in 2015”, 2016-01-27 <http://mn.mofcom.gov.cn/article/ztdy/201601/20160101244022.shtml>

of foreign investment for 15 consecutive years. By the end of 2014, more than 6500 Chinese enterprises has registered in Mongolia, the two countries continue to strengthen regional economic cooperation. However, the current situation of economic and trade development between China and Mongolia show that investment and trade are basically focused on energy and mineral resources in Mongolia. The lack of various contents of cooperation, and the lack of innovation of forms, lead to insufficient strength for economic and trade development between China and Mongolia. Therefore, with the help of good political relations between the two countries and the background of coordinating “the Belt and Road” and “Prairie Road”, the two countries should innovate the mode of cooperation. As for cooperation contents, not only strengthening cooperation of channel construction, attaching importance to industrial cooperation, but also strengthening the construction of cross-border economic cooperation zone are crucial, in order to support the future economic and trade development.

Third, the coordination of the two strategies will help break the bottleneck of economic and trade cooperation of the two countries.

Mongolia is rich in natural resources, and has tremendous demand for logistics transportation. In addition to the 50 million tons of coal exports per year, there are a large number of copper, iron ore. Although the mineral products trade between China and Mongolia increased year by year, the heavy rely on road transport leads to the high cost of transportation, the competitive advantage of resources decreased due to the limited transport capacity, the weak transportation has become the biggest obstacle to China-Mongolian economic and trade cooperation. Since the problem of energy shortage in China will exist in a considerable period of time, the infrastructure construction, especially railroad construction takes up the most prominent position for both “the Belt and Road” and “Prairie Road”. At present, there is only one railway line between Mongolia and China- the Ulaanbaatar - Beijing railway opened in 1956. As a channel connecting the Eurasian Continental Bridge, Mongolia hopes to use its geographical advantages, on the one hand to facilitate bilateral trade transportation for China and Russia, solve the transportation bottleneck; on the other hand to establish transport corridor across the Eurasia, expanding exports to Europe and other countries.

“The Belt and Road” initiative will help boost the “Prairie Road” strategy. Both China and Mongolia has the demand to strengthen regional economic cooperation. Therefore, Mongolia’s “Prairie Road” coordinates “the Belt and Road”, at the same time, “the Belt and Road” effectively promote the implementation of “Prairie Road”.

III. Key Fields of Coordinating “the Belt and Road” and “Prairie Road”

Different levels of cooperation also have a wealth of levels and specific contents. It can be predicted that with the gradual deepening of cooperation between China and Mongolia, the basis of docking the two strategies will become more solid.

1. Transportation infrastructure construction as the most important cooperation

Since traffic infrastructure is an important condition of trade contacts, and unblocked transportation system between countries is the prerequisite and basis for bilateral economic and trade exchanges, China and Mongolia put cross-border infrastructure, especially traffic system linking as a breakthrough in the strategic development. China’s “the Belt and Road” is traffic infrastructure construction with relevant countries in the first place. Located in Central Asia, Mongolia’s backward railway and other transport network has been unable to meet the requirements of its domestic economic and social development, neither can adapt to the rapid growth of foreign economic cooperation needs. The primary plan that the “Prairie Road” clearly put forward is cross-border railway construction, in hope of further expanding cross-border transportation system through the construction of highway and electrical lines. Mongolian government believes that the “Prairie Road” plan will bring more business opportunities along Mongolia’s new traffic road, and can promote the upgrading of local industries. Mongolia’s core industries, namely the energy industry and mining industry will also enjoy the direct benefits of the program. It is estimated that through running oil and natural gas transit transport between China and Russia, Mongolia will earn 200 billion MNT in 2020⁶. In June

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>.

2016, during the Shanghai Cooperation Organization Summit in Tashkent, “Program Planning of the Construction of Economic Corridor between China, Russia and Mongolia” signed by the three governments clearly pointed out that China is willing to continue to participate actively in the highway construction within Mongolia, and investment and construction of the railway in Mongolia according to market principles, to provide help for the realization of transit transport in Mongolia⁷.

2. Expanding economic cooperation through mutual exchange of needed products

The two countries have considerable complementarities in economic and trade cooperation. First of all, Mongolia has a relatively simple industrial structure, light industry lags far behind the development of animal husbandry and mining. The production of food and daily necessities cannot even meet their own needs, vegetables, cereals; fruits need to be imported to meet domestic demand. Whereas China’s light industrial products has attracted worldwide attention, consumer goods and agricultural products with rich variety and low price, are ideal choices for Mongolia. Therefore, China should strengthen the export of consumer goods such as food and commodities in Mongolia. Second, the development and utilization of the natural resources of Mongolia is also an important project. Mongolia’s forest resources, petrochemical resources, animal husbandry resources meet the demand of China’s economic development. Third, the bilateral cooperation in the labor employment also has broad prospects. China has abundant labor resources, while Mongolia has relative small labor force, the labor supply and demand of the two countries can complement each other. Finally, the two countries can also carry out cooperation in tourism, health care and other fields of service trade.

3. Environmental protection as the key cooperation field

Mongolia is rich in biological resources above ground and mineral resources underground. Mining industry is one of the important pillar industries of Mongolia’s economic development. Mongolia’s mining industry accounts for about 34% of GDP, 82% of export revenue, and 33%

⁷ National Development and Reform Commission http://www.sdpc.gov.cn/xwzx/xwfb/201609/t20160913_818347.html

of fiscal revenue⁸. However, problems such as environmental pollution, water shortage and destruction of ecological environment caused by mineral development have become a negative factor for the mineral resources cooperation in the two countries. At the same time, Mongolia's animal husbandry is an important traditional industry, and the foundation of the national economy, as well as the main source of raw materials of processing industry and the bare necessities. Animal husbandry output accounts for 20% of the GDP, about half of the population makes a living out of it. But challenges brought about by over-grazing, environmental changes make it difficult for Mongolia to develop grassland resources in recent years. China also faces a common environmental protection problem in the area adjacent to Mongolia. How to coordinate the relationship between development and protection, to develop green low-carbon resources, and contribute to the regional environmental protection and sustainable development, is the important topic in the China-Mongolia cooperation. The two sides could further strengthen exchanges and cooperation of environmental protection in adjacent areas, focusing on the grassland ecological protection, desertification control, afforestation, artificial rainfall and other aspects.

4. Financing as important support and bridge

Finance is the blood of modern economy, and the guarantee of economic development. Two most important mechanism of China's "the Belt and Road" are the Asian Infrastructure Investment Bank and the Silk Road fund. The original intention of the establishment of AIIB is focusing on infrastructure construction, with the purpose of escorting "the Belt and Road." China and Mongolia can actively and effectively use these financial institutions to finance "the Belt and Road" and "Prairie Road". As a founding member of the AIIB, Mongolia can fully utilize its resources for the development and construction of the "Prairie Road". As Enkhsaikhan-the Minister of State of Mongolia-said, "AIIB can provide financing for the development of important projects in the region."⁹ At the same time, as a mid-and-long-term investment fund, the Silk Road Fund which is more targeted aims to provide investment and financing services for "the Belt

⁸ Sun weiren. Some Thoughts on Chinese Enterprises' Investment in Mongolia. 2014-11-10 <http://mn.mofcom.gov.cn/article/ztdy/201411/20141100790312.shtml>

⁹ "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.

and Road”. In December 29, 2014, the Silk Road Fund LLC incorporated in Beijing, with registered capital of \$100 billion. In the future financing work of China-Mongolian cooperation, the Silk Road Fund will also provide effective support for the cooperation between China and Mongolia.

5. Great potential for cooperation and development in energy and mineral resources

Mongolia is rich in mineral resources, as well as a large number of high-quality mining which has not been mined. A lot of resources distributed in border region of China and Mongolia. The copper, gold, coal, uranium and oil is mainly distributed in the western, southern and eastern provinces bordering China. Therefore, to better utilize and develop the resources of Mongolia and the capital, technology and market of China, will lead to a win-win situation for both countries. While Mongolia’s “Mining for Rejuvenating” is a long-term national policy, bilateral cooperation for the development of mineral resources should also be planned for the long-term. First we should cooperate in the fields of supporting infrastructure of mineral resources development, such as roads, electricity, and communication. Therefore, in the process of coordinating “the Belt and Road” and “Prairie Road”, the two countries can apply for the use of AIIB and the Silk Road Fund, which will play a positive role for the economic development of both countries.

6. Cooperation in the field of agriculture and animal husbandry needs to be developed

Although occupying half of the country’s GNP in Mongolia, Mongolia’s agriculture and animal husbandry have backward production technology, and overall low level of development. The basic agricultural products (such as grain, vegetables) demand far exceeds supply; whereas China’s agriculture is relatively developed, with rich agricultural products, trade cooperation between the two countries has great potential. At the same time, China can provide agriculture and animal husbandry support projects for Mongolia, such as agricultural mechanization, water conservancy facilities construction, scientific planting and cultivation industry.¹⁰

10 Lihui. The Current Situation and Countermeasures of China-Mongolia Economic and Trade Cooperation. Market Modernization, 2008, (1) : 11-13.

IV. Problems of Coordinating “the Belt and Road” and “Prairie Road”

First, to pinpoint the coordination of “the Belt and Road” and “Prairie Road”

First is to pinpoint the concept. In the process of coordination, it is crucial to accurately determine the greatest common divisor of two strategies, to find a meeting point of interests of the two sides. The core element of “the Road and Belt” is infrastructure construction, and the 5 specific projects of “Prairie Road” of are also infrastructure projects. Therefore, infrastructure construction is coherence point of the two strategies. From the design concept to specific cooperation projects should reflect the concept of win-win between China and Mongolia. Second is to pinpoint docking technology, which needs joint efforts of both sides. In this process, construction planning, technical standard system, and specific operating procedures need consultation of the two countries to resolve.

Second, to strengthen mutual trust of the two countries

The natural geographic advantages of the two countries can be the basis of bilateral trade and economic development on the one hand, but on the other hand it may also become factors restricting the in-depth development of bilateral economic and trade relations. From the current situation of economic and trade relations between China and Mongolia, one restricting factor is the two sides haven’t reached a consensus on “China-Mongolia-Russian Economic Corridor”, there are still doubts. Some people think that China will adopt aggregate strategy with the help of initiatives like “the Belt and Road” and “China-Mongolia-Russian Economic Corridor”, plundering Mongolia’s resources. Some of the reasons are tortuous history between China and Mongolia, the special geographical position, and the balanced foreign policy of great powers. These all cause China-Mongolian economic and trade cooperation affected by great power relations in some cases. Hesitation, wandering, and the lack of understanding of the “win-win”, directly lead to the relatively low level of bilateral trade. This is a major challenge for the coordination of “the Belt and Road” and “Prairie Road”.

Third, influence of corporate governance system difference and cultural difference on bilateral economic and trade cooperation

“Going out” for the Chinese enterprises may be easy, but it is very difficult to stand firm. For Mongolia, China is the largest investor and has more than 6,000 enterprises in Mongolia according to statistics. In the aspect of corporate governance system, Chinese enterprises are most likely to collide with Mongolia in environment barriers and the social responsibility barriers. The main reason for being boycotted and even expelled is environmental pollution, human rights and other issues. The lack of qualification, deficient management system, weak awareness of environmental protection, the lack of respect for the local customs and religious taboos, and the many problems in products quality and intellectual property rights of some Chinese enterprises, directly affect the reputation of Chinese enterprises, caused great dissatisfaction with the local people, all these bring obstacles to the bilateral economic and trade cooperation. In addition, although China and Mongolia are neighbors, they belong to two different civilization systems, which lead to differences of moral concept, language, religion, customs and other aspects, and then may cause many possible misunderstandings in economic and trade cooperation. Cultural differences can also result in different view on negotiation methods and targets, which will directly affect the final outcome of the negotiations, and finally affect China-Mongolian economic and trade cooperation.

Fourth, instability of the political situation in Mongolia brought about variables for the coordination of the two strategies

Mongolia’s political system is constitutional republic, with unicameral parliament. State Great Khural may propose to discuss any problems of the domestic and foreign policies. The president and vice president of the State Great Khural, the prime minister and the president all have a 4-year term of office. And members of the government are appointed by the State Great Khural. Whenever the government changes, all the unimplemented proposals of the previous government have to be reconsidered. Different regimes often change over specific policies, which will have a serious impact on the continuity and the implementation of the policies. And then will affect the stability of Mongolia’s policy and investment environment, reduce the efficiency of cooperation. The continuous and smooth coordination of

“Prairie Road” and “the Belt and Road” is difficult at present, and it is crucial to the investors.

The coordination of “Prairie Road” and “the Belt and Road” is the best choice for both countries to deepen cooperation, the common goal for future cooperation, and the win-win road for economic and social development. Although there will be some negative factors objectively and subjectively in the process, through the joint efforts of the two governments and the people from the two countries, they can be overcome. We can predict that in the future decade, China and Mongolia will continue to expand economic cooperation in areas of trade, investment, labor, aid, and etc. Strategic partnership between the two countries will be more closely.

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