

The Belt and Road Initiative and **Mongolia**





MONGOLIAN GEOPOLITICS #4

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Introduction

Although all major infrastructure projects of China's Belt and Road Initiative (BRI) halted due to the coronavirus pandemic, talks and discussions about bilateral and regional BRI projects have sustained. Even amid the pandemic, the BRI has taken a new turn. In June 2020, the Chinese Foreign Ministry organized a video conference with 25 BRI participating countries, along with the World Health Organization and the United Nations Development Programme, to expediate international collaboration to address the global public health challenges. With the video conference, Chinese leaders started to push the Health Silk Road, which was only discussed as a marginal issue when introduced in 2015.

As explained by Chinese Foreign Minister Wang Yi, the Health Silk Road would be launched in combination with two other BRI initiatives: (1) the Digital Silk Road, to improve virtual connectivity, including fifth generation (5G) mobile service, artificial intelligence, smart cities and the Internet of things, and (2) the Green Silk Road, to pursue green development and sustainable growth.¹ This move demonstrates the flexibility and inclusiveness of China's grand BRI strategy.

This policy paper provides brief analysis of the development of the BRI, summarizes the Chinese rationale as well as reactions of major powers and discusses challenges and opportunities for Mongolia as China and Russia advance their respective regionalization strategies.

What is the Belt and Road Initiative?

In the fall of 2013, the BRI was introduced as One Belt One Road. The “belt” referred to the Silk Road Economic Belt and overland transportation routes through Central Asia to Europe, and the “road” referred to maritime routes through Southeast Asia to South Asia, the Middle East and Africa. For a long time, the Chinese government and businesses had sought ways to increase their transportation connectivity. Chinese leader Xi Jinping, new at that time, introduced the BRI as a major foreign and economic policy initiative to increase Chinese investment in global infrastructure.² He established small leading groups to oversee the development and implementation of the initiative and tasked the National Development and Reform Commission as the lead agency. In March 2015, that Commission released the visionary document explaining the purpose, principle, priorities and implementation framework of the BRI.³ It outlined the following six economic corridors:

- New Eurasian Land Bridge (Belarus, Kazakhstan, Poland and Russia)
- China–Mongolia–Russia
- China–Central Asia–West Asia
- China–Indochina Peninsula
- China–Pakistan
- Bangladesh–China–India–Myanmar.

Even though the key component of the BRI is infrastructure connectivity (ports, rails, roads, pipes, grids, cables), the document identifies five forms of connectivity with the participating countries: (1) policy coordination, (2) facilities connectivity, (3) unimpeded trade, (4) financial integration and (5) people-to-people bonds. Following this visionary document, the BRI began to include new projects also named “silk roads”.

In 2014, the most ambitious project—the Space Silk Road—was introduced. Building on the ongoing Chinese space programme, the Space Silk Road aims to support overland and maritime routes by providing global navigation services.⁴ The core element of the Space Silk Road is the Chinese-made BeiDou Navigation Satellite System, which has capability for global positioning, navigation and tracking. Intricately linked to the Space Silk Road is the Digital Silk Road, which was announced in 2015.⁵ The Digital Silk Road project includes e-commerce, digital currency, construction of fibreoptic cable networks, a data and research centre, 5G mobile and cloud services, smart cities, artificial intelligence, telemedicine, quantum computing and so forth.

Then in 2017, the Chinese authorities launched the Arctic Silk Road, which is interchangeably called the Polar Silk Road and the Ice Silk Road.⁶ The project strengthens China’s earlier efforts of establishing shipping routes in the Arctic, developing natural resources and advancing research and development in the North and South Poles.

The term Green Silk Road has been used frequently to address

sustainability and green development concerns, but it remains vague. The Health Silk Road⁷ appears to have gained momentum during the pandemic, although it is too early to forecast how this momentum will play out in the coming years.

Overall, the Chinese authorities are moving forward to provide centralized, top-down management for implementing the BRI. They have even assigned a completion date, as 2049, which is the centennial of the founding of the People's Republic of China. The most surprising move to date has been the inclusion of the BRI in China's Constitution during the nineteenth National Congress of the Chinese Communist Party, in October 2017.⁸

Without disclosing precise numbers, the Chinese authorities have made several efforts to finance the global initiative. In December 2014, they established a state-owned investment fund with US\$40 billion, called the Silk Road Fund, and began to invest in the BRI projects through its major investment banks (the Export-Import Bank of China and the China Development Bank).⁹ In December 2016, they established the Asian Infrastructure Investment Bank, which is modelled after and aims to work closely with the International Monetary Fund, the World Bank and the Asian Development Bank.

Along with the centralized institutionalization efforts, the Chinese leaders also used all foreign policy platforms—bilateral, regional and international—to explain the initiative and encourage collaboration. In 2017, China began hosting the biennial Belt and Road Forum for International Cooperation and welcoming Heads of

Governments as well as international organizations.¹⁰ At the same time, China launched an aggressive campaign to sign a memorandum of understanding (MOU) with countries that are either potential recipients of the BRI investment or developed countries interested in participating in the BRI projects in developing countries. As of today, China has concluded MOUs with more than 130 countries.

China's rationale and reactions of major powers

The avoidance of labelling the BRI as a strategy indicates China's concern for being perceived as a great power that aims to expand its sphere of influence or to change the existing international and regional orders.

The following five reasons are put forward by Chinese leaders, academics and policy practitioners as rationale for the BRI. First, China is simply responding to the global demand for infrastructure investment: A commonly cited Asian Development Bank study estimated that Asia will need US\$26 trillion of funding for the infrastructure projects that will be required by 2030.¹¹ Second, China continues its economic opening by improving infrastructure connectivity and the planning to build 50 special economic zones, following the Shenzhen Special Economic Zone model of the 1980s. Landlocked regions like Tibet, Xinjiang, Inner Mongolia and Yunnan would be connected to neighbouring Nepal, Central Asia, Mongolia, Russia and Indochina, in addition to providing economic opportunities for China's landlocked inner regions. Third, China needs to spend its excessive resources (money, materials,

labour) to create business opportunities for its companies and workers; the infrastructure investment provides such opportunity. And China has the most advanced technology and expertise in infrastructure construction. Fourth, China needs to develop new routes for the trade of critical resources beyond Southeast Asia. Thus, China is investing into deep sea ports and constructing rails and pipelines through South, Central and West Asia, Eurasia and in the Arctic. Finally, the BRI supports China's Go Out (Go Global) policy to increase Chinese foreign direct investments globally and the Made in China 2025 plan to shift its manufacturing capability from low-tech, labour-intensive to hi-tech production.¹² This will encourage Chinese tech companies, for example, to further compete in the global market.

With these reasons, China presents the BRI as a pure economic initiative and argues it will provide win-win opportunities for participating countries.

In contrast, major powers perceive the BRI somewhat cautiously. Foremost, they all worry that the BRI will intensify China's economic development as well as its military capabilities as the country gains strategic advantages in the space, maritime and cyber domains. Second, the BRI will create a Sino-centric global and regional economic order, which will gradually reduce the role of the Group of Seven (G7) countries and even result in a system that competes with the United States-dominated Bretton Woods system. Third, all major powers are concerned about China's geopolitical expansion and influence globally as well as in their respective regions. The United States worries that China's access

to deep sea ports, development of digital infrastructure and space exploration will undermine American dominance as a global power. As regional powers, Australia, India, Japan and Russia are wary of losing their influence to China within their respective regions—in the South Pacific, South Asia, East Asia and Eurasia. Even Western European powers openly express their concerns for China's growing influence in Central Europe and the Balkans.

These concerns have triggered different responses. At the extreme end, the United States intensified its military alliance with Australia, India, Japan and others to contain China, pressured its allies to ban China's tech companies (Huawei and ZTE) from developing 5G networks and even established a development agency (the International Development Finance Cooperation) for infrastructure investment. Similarly, Japan launched the Partnership for Quality Infrastructure initiative to promote "quality" and "sustainable" infrastructure across Asia (in 2015), the Asia–Africa Growth Corridor with India to improve connectivity between Asia and Africa (in 2017) and the Connectivity Partnership with the European Union (in 2019) for global infrastructure investment.

In the majority of G7 members and Australia, responses to the Chinese BRI have been shaped between economic versus security reasons. For instance, excluding Japan and the United States, all of the G7 members and Australia joined the Asian Infrastructure Investment Bank, and Australia, France and Japan have signed MOUs with China to cooperate in developing countries. India's stance on the BRI is the most complicated. Although India allowed Huawei to participate in its 5G network development, Indian au-

thorities changed their mind following the Sino–Indian clash over the disputed border. India adamantly opposes the China–Pakistan Economic Corridor because it would run through disputed territory between India and Pakistan. However, India received a US\$750 million loan from the Asian Infrastructure Investment Bank.¹³ In contrast with the United States’ responses, Russia has been the only major power to welcome the BRI. The Russian president has attended all high-level summits and welcomed Huawei’s participation in Russia’s development of its 5G network. For China, Russia is a key partner for the New Eurasian Land Bridge, the Arctic Silk Road and the China–Mongolia–Russia Economic Corridor, in addition to energy resources. Russia, however, wants to incorporate its Eurasian Economic Union with the BRI under the Greater Eurasian Partnership, as coined and insistently pushed by President Putin.

Opportunities and challenges for Mongolia

Following the Sino–Soviet rapprochement, which ended Russia’s militarization of Mongolia against China in 1986, Mongolian leaders and academics began to dream of becoming the economic land link between, ideally, Asia and Europe or, realistically, Russian Siberia and the Chinese northeastern regions. Yet, Mongolia has lacked the capacity as well as funds to build such infrastructure—roads, rails, land ports, airports and logistical centres. In this regard, Mongolian leaders and businesses perceive China’s BRI as a golden opportunity. In the spring of 2014, immediately after the launch of the BRI and its endorsement by Russia, the Mongolian government presented its Steppe Road initiative to Beijing and

Moscow to build roads, rails, oil and gas pipelines and electric grids between the two countries through Mongolia. Mongolian leaders convinced the visiting Chinese president in August and the Russian president in September 2014 to increase trilateral economic connectivity through Mongolia. A year later, Mongolia was officially included in the BRI visionary document as one of the six economic corridors, and Chinese and Russian leaders endorsed the merging of three proposals—China’s BRI, Russia’s Eurasian Economic Union and Mongolia’s Steppe Road.

Since then, Mongolia has supported all types of initiatives by China regarding the BRI, became a member of the Asian Infrastructure Investment Bank and began to seek funds for possible infrastructure projects from Chinese banks. However, Beijing started to lose its initial high hopes for Mongolia’s potentiality within the BRI for several reasons: (1) The Dalai Lama visited Mongolia in November 2016 despite repeated Chinese dissuasion.¹⁴ Because the Dalai Lama is considered the spiritual leader of Mongolian Buddhism, the Mongolian government could not prevent his visit but would deny any official involvement in the visit. Apparently, such explanation did not ameliorate the Chinese concerns. (2) Russia has increased its influence in several projects that could have been financed by China. For example, several attempts by Mongolian business groups to connect major mining deposits in southern areas to the Chinese railways with Chinese standard rail gauges failed. And Russia successfully stalled the Eg River hydro-power project, which would have been funded by a Chinese soft loan. (3) Mongolia’s political instability has increased, especially from 2015 to 2017. The political landscape has become vulnerable

due to factional infighting within two major political parties—even after one party was in control of the government. (4) Mongolia has refused China’s investments in major mining projects. For example, for a second time, the Chinese Shenhua Energy’s bidding, along with Japan’s Sumitomo Corporation and the Mongolian Mining Corporation, to develop the Tavan Tolgoi coking coal deposits was rejected by the Mongolian Parliament in 2016.

After a brief hiatus, however, Mongolia concluded an MOU on BRI cooperation with China during the first Belt and Road Forum in April 2017. A trilateral intergovernmental working group was set up, and cooperation documents were signed to implement 32 projects related to the China–Mongolia–Russia Economic Corridor (see the table).¹⁵ If the China–Mongolia–Russia Economic Corridor initiative is realized, it will make Mongolia a land link between two markets. But there are some challenges because the three countries have different priorities in mind: China has broader objectives along the five areas of the BRI; Russia wants to assert its traditional geopolitical privileges in Mongolia; and Mongolia wants the construction of physical infrastructure.

Projects of the China–Mongolia–Russia Economic Corridor

Type	Number
Transportation and infrastructure	13
Railway (7)	
Logistics (1)	
Road (4)	
Telecommunication (1)	

Industrial sector	2
Development of cross-border points	1
Energy sector	1
Facilitation of trade and inspection procedures	4
Environment and ecology	3
Education, science and technology cooperation	3
Humanitarian	3
Agriculture	1
Medical science	1
Total	32

Source: Enkh-Amgalan Byambajav, “BRI progress in Mongolia”, PowerPoint presentation (UNDESA, 25–26 Sep. 2019). Available at www.unescap.org/sites/default/files/5_Mongolia%20BRI%20progress.pdf; “Гурван улсыг хамарсан ЭДИЙН ЗАСГИЙН КОРИДОР: 32 ТӨСӨЛ”, IKON News, 27 June 2016. Available at <https://ikon.mn/n/rw8>.

For China, the BRI has been quite successful with Mongolia in terms of the five types of connectivity. Regarding policy coordination, it declared a comprehensive strategic partnership and conducts annual intergovernmental dialogues with Mongolia. China is ready to invest in facility connectivity projects (roads, rails, pipelines and grids) if Mongolian leaders agree domestically as well as with Russia. Both countries have been working to improve cross-border trading facilities, logistics and customs procedures for unimpeded trade. Financial integration has been slow but

steady. Chinese banks established representative offices in Ulaanbaatar, financed multiple infrastructure and construction projects and secured Mongolia's interest and support for the BRI-related banks. People-to-people bonds, such as cultural and academic exchanges, scholarships and Chinese tourists, have increased since the 1990s.

In reality, except for the development of mining resources, Mongolia is not typically considered economically attractive for Chinese businesses because of its small market, limited connectivity and political instability. A clear example is the Asian Infrastructure Investment Bank's reluctance to invest in infrastructure projects in Mongolia. Furthermore, Mongolia is considered a hostile environment, to a certain degree, for Chinese nationals as a result of lingering anti-Chinese sentiment, which was institutionalized during the Sino-Soviet conflicts of the 1960s and 1970s.

For Russia, Mongolia is a traditionally geostrategic stronghold against China. Russian leaders, especially Putin, and security experts have asserted policies to bring Mongolia back into its sphere of influence. The declaration of the permanent comprehensive strategic partnership along with a renewed bilateral treaty now requires frequent consultations and even secures Mongolia's commitment to the Russian railway gauge for any new extension. As noted, Russia wants Mongolian leaders to support its regionalization strategy (the Eurasian Economic Union) and accommodate its traditional interests in infrastructure development, energy and major mining projects. At the same time, Russia is an economic competitor in terms of exporting its mineral resources (such as

coal) to China as well as attracting Chinese investment and technology into its underdeveloped and isolated Far Eastern regions.

Mongolia considers the development of the central railway corridor, the central highway corridor and electricity transmission lines as priorities. But, except for the central highway corridor, Mongolia needs Russia's collaboration because since Russia maintains influence in its railway and energy sector. Similarly, because of Mongolia's landlockedness, access to infrastructure and logistical facilities of both neighbours and the reduction of tariffs, taxes and transit fees have been other important issues for Mongolia to develop trilateral economic cooperation. China is pressuring Mongolia to establish a bilateral free trade agreement, while Russia wants Mongolia to conclude a free trade agreement with the Eurasian Economic Union.

Unlike some other economic corridors, the China–Mongolia–Russia Economic Corridor is making steady progress. All three States have reached high-level political agreement and established a trilateral consultative mechanism to work out the details. And the projects are domestically supported to improve the infrastructure connectivity.

At the moment, an emerging hope for Mongolian leaders regarding the BRI is Moscow's recent decision to construct a second pipeline (Power of Siberia–2) through Mongolia. Even if the Chinese side has not declared its stance formally, the Russian Gazprom is moving quickly to begin the negotiation process (which is expected to take at least five years) with China (price) and

Mongolia (transit fee). Indeed, the gas pipeline could be the most important trilateral economic project, although it would establish Mongolia's dependency on Russian natural gas.

Conclusion

When China launched its Health Silk Road this past June, Mongolian leaders wholeheartedly supported the initiatives to increase cooperation in the public health sector because the Mongolian public health system is poorly equipped to deal with pandemics, such as COVID-19. This paper demonstrates that Mongolia's focus in regard to the BRI has mostly revolved around constructing physical infrastructure (roads, rails, land ports, pipelines and grids) similar to many other developing States seeking funds for infrastructure development. Although it is premature to speculate on the success or failure of China's long-term developmental vision for Eurasia, the BRI would facilitate Mongolia's dream of bridging two large economies and increasing its connectivity with Asian and Eurasian markets. Beijing's flexibility and altruistic approach could provide room for Mongolia to negotiate and reduce the financial, environmental and possibly social impacts of the infrastructure investment. Moscow's interest in pushing larger Eurasian initiatives could also provide some opportunities to access Eurasian markets as well as keep traditional security ties with Russia. If successful, Mongolia could be a merging point for China's BRI and the Russian Greater Eurasian Partnership.

Endnotes

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