

## One Belt, One Road and the Sino-Mongolian Relationship

*By Gregor Grossman*

*April 2017*

Since China's new Silk Road initiative, "One Belt, One Road" (OBOR, see boxed text), was first announced in 2013, it has provoked a wide variety of reactions, partly because details of the new strategy were slow to emerge. While the stated goal of OBOR is to expand ties between Asia, Africa and Europe across a range of sectors, uncertainty about the precise aims and impact of the policy remain. This is true especially for the states on China's periphery, who face a balancing act between enjoying the potential benefits of increased economic interaction with their larger neighbor and becoming too dependent.

Nowhere are these concerns more relevant than in Mongolia. The country plays a key role in OBOR plans and has had close ties to China, both recently and historically. While Mongolia aligned with the Soviet Union during the Cold War, its ties to China have strengthened since the early 1990s. As a result, Mongolia has become more and more economically dependent on its southern neighbor. Much of this dependence results from geography. Mongolia is a landlocked country with only two international borders, one that it shares with Russia in the north and the other with China in the south. These factors make Mongolia particularly vulnerable to shifts in Chinese domestic and foreign policy.

Today, more than three years after Xi Jinping first announced the new Silk Road initiative, the contours of the policy are beginning to take shape and an initial assessment can be made of its ramifications for Mongolia.

### OBOR and Mongolia

Mongolia is part of China's OBOR strategy in a number of ways. Most fundamentally, the country forms part of the **China-Mongolia-Russia Economic Corridor**, one of six such corridors identified in OBOR documents.

*Mining projects, as well as existing and planned infrastructure along the China-Mongolia-Russia Economic Corridor.*



Since OBOR was announced, the intensification of Sino-Mongolian relations has been reflected in a series of high-profile meetings, beginning with a meeting of President Xi Jinping of China and Mongolian President Tsakhiagiin Elbegdorj, as well as Russian President Vladimir Putin, in 2014, during the Dushanbe Summit of the Shanghai Cooperation Organization. In that same year, the bilateral relationship between Mongolia and China was elevated to a comprehensive strategic partnership. In November 2015, Xi and Elbegdorj met again to discuss coordinating OBOR with Mongolia's own national development strategy, the Steppe Road, an indication of China's efforts to promote the win-win nature of OBOR. Last year on June 23 and 24, 2016, president of Mongolia Ts. Elbegdorj, President of Russia Vladimir Putin and President of China Xi Jinping sealed the agreement on in Tashkent, Uzbekistan. The trilateral economic corridor is a major cooperation initiative aligns China's Silk Road Economic Belt initiative, Russia's Trans-Eurasian Belt Development initiative, and Mongolia's Steppe Road Program.

Cooperation in other areas has also increased. The two countries have implemented a currency swap and preferential loans have been provided

to Mongolia by the Chinese via the Silk Road Fund and the Asian Infrastructure Investment Bank (AIIB), the latter of which Mongolia is a founding member. Both institutions play key roles in funding OBOR projects. Following a transit agreement in 2015, border trade zones were created and Mongolia was given access to the port of Tianjin, a priority for the Mongolian government. In the same year, a controversial land-lease agreement was signed (see below). Infrastructure projects focusing on investments in road, rail, energy and border facilities have been announced and implemented, though construction activity has concentrated on the Chinese side of the border. Finally, China has made an effort to strengthen people-to-people ties by establishing Confucius Institutes, building a children's hospital in Ulaanbaatar and promoting student exchanges.

## Tensions in the Sino-Mongolian relationship

As Sino-Mongolian exchanges have intensified, a number of concerns have been raised. Chief among these is Mongolia's growing economic dependence on China. In 2015, for instance,

more than 80 % of Mongolian exports went to the PRC, up from just under 50 % in 2005. Of these, the vast majority were mineral resources. This makes Mongolia extremely vulnerable to economic fluctuations in China. Similarly, China has become Mongolia's largest source of foreign direct investment (FDI) in recent years, as well as an important lender. These changes have come about as economic growth and overall FDI in Mongolia have dropped sharply.

Other concerns have been political in nature. These came to the fore in November 2016, when the Dalai Lama visited Mongolia. China's stern warnings to the Mongolian government prior to the visit went unheeded in what appeared to have been an example of a smaller state refusing to buckle under Chinese pressure. In the aftermath of the visit, China raised tariffs on Mongolian goods, blocked a border crossing point and canceled intergovernmental negotiations between the two states. In response, the Mongolian government expressed its regret over the incident and signaled that the Dalai Lama would not be allowed to enter the country again under the current administration. Relations between the two states were said to normalize shortly thereafter.

In addition, there are reports of Mongolian fears that China will infringe on the nation's sovereignty. These concerns were fueled by the 2015 land-lease agreement mentioned above. Located in Mongolia's easternmost province, Dornod Aimag, which borders both China and Russia, the 500,000 hectares of land covered by the agreement are to be used for agricultural production and export.

Finally, there has been criticism that China is not taking responsibility for the environmental impact of the investments of Chinese companies and lenders abroad. In Mongolia, the most prominent example of this is the Egiin Gol hydro-power project. The project would see a dam built on the Eg River in northern Mongolia and is part of a Mongolian plan to reduce the nation's dependence on Russian energy by developing hydropower resources. The China Export-Import Bank, which predates OBOR but plays an active role in the initiative, agreed to provide the Mongolian government with a one billion USD loan to finance the project. The construction com-

pany China Gezhouba began work on access roads and bridges last winter. In 2016, however, China halted the project due to a disagreement with Russia over the impact of the dam on the ecology of Lake Baikal. Currently, Mongolia is seeking funding elsewhere. While the project clearly reflects the interests of a variety of stakeholders, it served to highlight the lack of environmental standards for OBOR projects.

## Gauging OBOR's impact

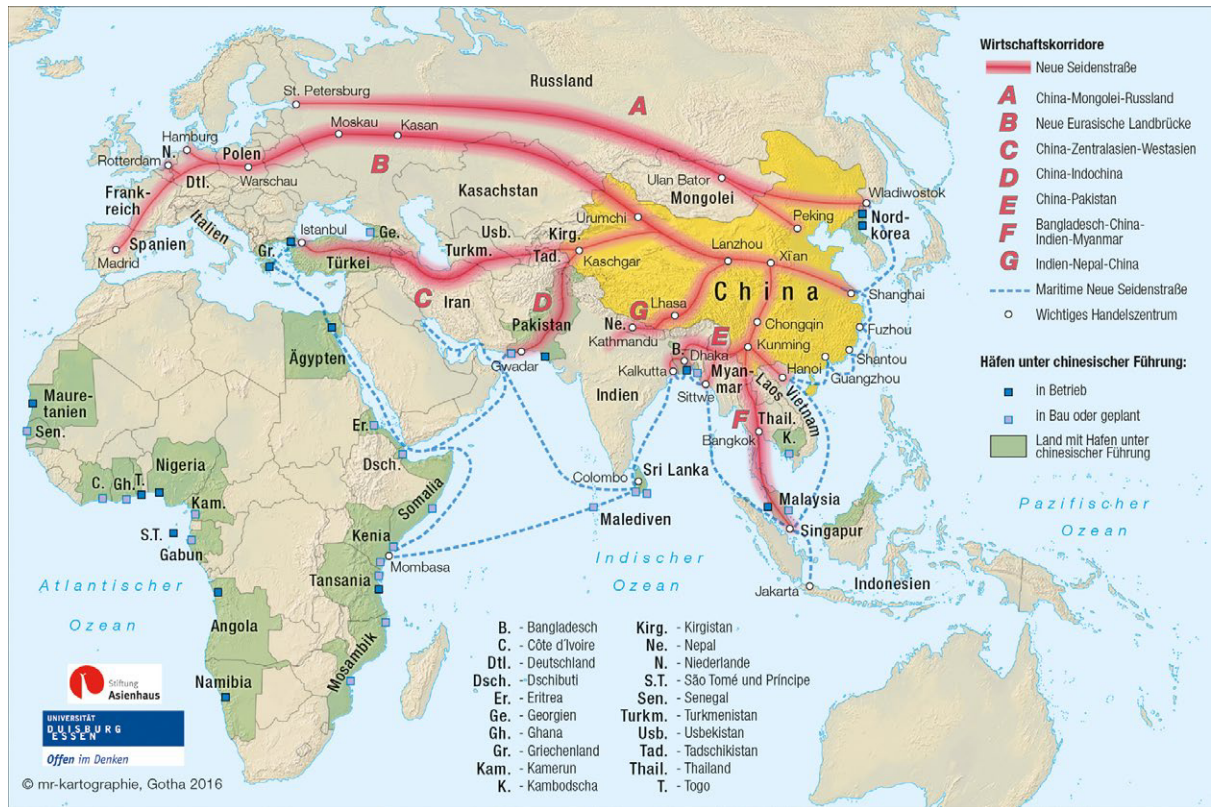
While these developments are concerning, they are not caused only by OBOR. According to World Bank statistics, for example, China has been a key trading partner for Mongolia since the late 1990s, with a sharp uptick in the percentage of exports going to China noticeable from 2005, well before OBOR was implemented. In addition, reports of China dominating foreign investment in Mongolia are paralleled by a sharp decline in investment from other sources. Overall FDI in Mongolia plummeted from 4.5 billion USD in 2011 to less than 100 million USD in 2015, according to the World Bank. Tensions between the government and Rio Tinto, a British-Australian mining giant, go some way towards accounting for this drop, as they have prevented a multi-billion-dollar expansion of the Oyu Tolgoi copper mine.

The rise and fall of the the Egiin Gol Hydro-power Project is similarly complex. In fact, the feasibility study for the Eg River dam was carried out not by the Chinese, but by the Asian Development Bank. That a project very much in line with Mongolian government priorities was stopped in response to Russian criticism is indicative of the challenges many OBOR investments face during implementation. What emerges is less an image of China pushing through projects at all costs, but rather one in which various actors attempt to further their interests.

Politically, China is likely to leverage its influence to draw red lines on certain issues in Mongolia, as it does elsewhere. Preventing visits of the Dalai Lama is the most common objective of these efforts. Fears of China infringing on Mongolian sovereignty, however, may be overblown.



The six OBOR economic corridors as outlined by the National Development and Reform Commission



China has signed land-lease agreements similar to the one mentioned above with other neighboring states.

These examples highlight the complexity of gauging the impact of OBOR on Mongolia, though it is clear that China's influence in the country is growing and will continue to do so. The question is how the Sino-Mongolian relationship can be shaped to encourage positive outcomes for Mongolia.

## Shaping future ties

The Mongolian government will continue to play a key role in navigating the country's relationship with China. Its ability to do so may be greater than it appears at first glance. For one, China needs to consider local interests as it seeks to expand its influence abroad, especially in democracies like Mongolia where public opinion is important. This was highlighted by the 2016 Mongolian parliamentary election, which saw a drastic shift in power from the Democratic Party, which was made responsible for the country's dire economic situation, to the Mongolian People's Party, with the latter picking up 65 of

the 76 seats in the national legislature. The initial impact of the election on Sino-Mongolian relations appears limited and the landslide victory had much to do with Mongolia's new majoritarian electoral system. Still, the result clearly demonstrated the ability of Mongolian voters to hold their government accountable.

The Mongolian government can also take an active role in shaping the nature of Chinese investments. As China becomes a global leader in renewable energy, for instance, Mongolia may be able to secure Chinese help in developing more sustainable energy sources. This will require aligning its domestic policies accordingly. To counterbalance the overreliance of its mining sector on Chinese demand for natural resources, Mongolia can take steps to diversify its economy by promoting eco-tourism, higher-value agricultural exports and other sectors. Finally, the government can block or renegotiate investments which are deemed to run counter to Mongolian interests, as it did the Oyu Tolgoi mine expansion.

China also has an interest in ensuring that it makes good on its promise to make OBOR beneficial to participating countries. The Chinese government and its citizens will have to take on

a shared responsibility for the projects realized by Chinese companies or with Chinese funding abroad.

## Civil society

Beyond the government level, civil society can also play a role in monitoring Chinese investments. In Mongolia, an initial framework for doing so exists from years of contending with foreign mining companies. The NGO OT Watch, which monitors the development of the Oyu Tolgoi mine, is one prominent Mongolian civil society actor. On the Chinese side, signs are emerging that the much talked about phenomenon of NGO internationalization is creating the space needed for Chinese NGOs like Beijing's Global Environmental Institute to act as watchdogs of China's investments abroad.

Finally, China's growing influence should not distract from the other actors who continue to

influence Mongolian affairs. In 2010, Mongolia sought to secure foreign investment to develop the Tavan Tolgoi coal mine. An initial bid by companies from a variety of countries, including China's Shenhua Mining, was blocked by Japan and South Korea after their companies had been excluded. Ultimately, Mongolia finds itself in the position of needing to manage the influence of various actors, among which China is the most powerful.

In conclusion, OBOR has led to an intensification of Sino-Mongolian ties, which has been accompanied by growing economic, political and environmental concerns. At the same time, isolating the effect of OBOR on individual developments is not straightforward. Different actors both in government and civil society will be called upon to ensure that a balance is struck between enabling Mongolia to reap the potential benefits of closer ties to China while taking stakeholder concerns into account.

## What is One Belt, One Road?

The One Belt, One Road (OBOR) initiative consists of the Silk Road Economic Belt and the 21<sup>st</sup> Century Maritime Silk Road. It has become the key pillar of current Chinese President Xi Jinping's foreign policy. First mentioned in 2013, concrete plans for OBOR were released by China's National Development and Reform Commission in March 2015.

While OBOR is not China's first regional policy initiative (China launched the Shanghai Cooperation Organization with Russia in the 1990s), it is the most ambitious. Broadly speaking, the policy is designed to connect Africa, Asia and Europe along six economic corridors, namely, the China-Mongolia-Russia Economic Corridor, the New Eurasia Land Bridge, the China-Central Asia-West Asia Economic Corridor, the China-Indochina Peninsula Economic Corridor, the China-Pakistan Economic Corridor and the Bangladesh-China-India-Myanmar Economic Corridor. Following the 2015 Nepal Earthquake, China further proposed establishing a China-Nepal-India Economic Corridor. According to the Chinese government, cooperation among the countries along these corridors, of which there are around 60, would be pursued in the areas of policy, infrastructure, trade, finance and people-to-people ties.

The initiative seeks to build on existing bilateral and multilateral relationships, as well as new and existing institutions. The Silk Road Fund and the Asian Infrastructure and Investment Bank (AIIB), with a starting capital of 40 billion and 100 billion USD, respectively, both provide funding for OBOR projects. Existing banks, like the China Export Import Bank are also involved. China envisions these banks as contributing to what could one day be trillions of dollars of investments in OBOR countries. As of 2016, close to 900 billion USD of projects had been announced, though many of these predate OBOR and were simply rebranded.

For China, OBOR is a vehicle for achieving a number of goals, the most ambitious of which is reestablishing China as a global power, in line with Communist Party rhetoric on national revival. On the ground, this will involve Chinese companies building ports, roads, railroads, power plants and dams both at home, where provinces vie to take advantage of increased trade with OBOR countries, and abroad.

Rather than a single clearly defined policy, OBOR is an attempt to give new focus to China's interaction with the outside world and to reshape international economic structures to more closely reflect Chinese interests.

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