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China to compromise on borders. Shi says that given the increased competition between Washington and Beijing, India's attitude towards the two powers will be decisive in defining the geopolitics of Eurasia in the twenty-first century.

3. Mongolia: China's perfect neighbour?

Antoine Bondaz

Sources:

Wei Lisu and Xia Anling, "An overview of research on Mongolia conducted by Chinese academics over the past 20 years", *Xiandai guoji guanxi – Contemporary International Relations*, No. 4, 2013.¹²

Wu Yun, "Exploratory study of China-Mongolia economic and trade relations in the twenty-first century", *Guoji yanjiu cankao – International Study Reference*, No. 8, 2013.¹³

Zhang Haixia, "The SWOT model applied to economic and trade cooperation between China and Mongolia", *Xiandai jingji xinxi – Modern Economic Information*, No. 10, 2013.¹⁴

Wang Cong, "The development of the 'silk road economic zone' is a major event", *Yangshiwang ping – CCTV Network Opinion*, No. 1043, December 2013.¹⁵

Wang Zhaobin, "The China-Mongolia dilemma in the coal trade", *I-Feng – Phoenix*, 9 January 2013.¹⁶

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"China-Mongolia relations are tested by the meeting between Japan's Prime Minister Abe and Mongolia's President Elbegdorj", *Ta Kung Pao*, 1 October 2013.¹⁸

Russian influence in Mongolia began to decline after the collapse of the Soviet Union. Since then, China has become the most important player in Mongolia's economic development. China is Mongolia's leading trading partner and the main focus of its diplomacy. However, the relationship is asymmetric: Mongolia is not a priority for China, as evidenced by the limited academic literature written on the subject in China.¹⁹ Instead, Mongolia

¹² Wei Lisu is a professor in the Department of International Politics, Central China Normal University in Wuhan, Hubei province. He specialises in Mongolia's domestic politics and foreign policy. Xia Anling is a professor of Marxism at the Huazhong Normal University, Hubei.

¹³ Wu Yun is a PhD student at Inner Mongolia University.

¹⁴ Zhang Haixia is a graduate of Heilongjiang University, Harbin, who specialises in relations between China and the former Soviet bloc.

¹⁵ Wang Cong is a researcher on Central Asia at the China Institutes of Contemporary International Relations (CICIR).

¹⁶ Wang Zhaobin is a senior reporter for the Chinese review, *Energy* ("能源" 杂志), specialising in coal and renewable energies.

¹⁷ Yan Xiaodong is an honorary research fellow at the Chinese Academy of Social Sciences (CASS).

¹⁸ *Ta Kung Pao* is China's oldest newspaper, founded in 1902. It is based in Hong Kong and financed by the Chinese Communist Party, and it is generally considered to be a mouthpiece for the country's leadership.

¹⁹ The article by Wei Lisu and Xia Anling points out that between 1992 and 2013, the CICIR published only 11 articles on Mongolia, with the leading Chinese academic journal, *Shijie jingji yu zhengzhi – World Economics and Politics*, publishing only two. The research centre most active in dealing with the subject is the Institute of Northeast Asian Studies, Jilin University.

represents an economic opportunity, mainly useful to China as a source of raw materials.²⁰

The special relationship is reflected in the two countries'

Table: China's share of Mongolia's trade

	1990	1995	2000	2004	2008	2010	2011	2012
Total Mongolia Trade (USD bn)	1.6	0.9	1.2	1.9	5.8	6.1	11.1	11.1
China Mongolia Trade (USD bn)	0.03	0.11	0.4	0.7	2.5	3.4	6.5	5.9
China share of Mongolia trade (%)	2%	14%	33%	37%	43%	56%	57%	53%

Source: Wu Yun, "Exploratory study of China-Mongolia economic and trade relations in the twenty-first century", *Guoji yanjiu cankao – International Study Reference*, No. 8, 2013.

China has complex and tense relations with its littoral neighbours, from Japan to the Philippines and Vietnam. By comparison, Mongolia seems to be the perfect neighbour. The economies of the two states complement each other. Mongolia has no disputes with China over the two countries' shared 4,710km border, and the country presents no threat to China's national security. The articles leave out the historical border dispute between China the Soviet Union over the current PRC-Mongolia border. They also ignore past claims to complete sovereignty over Mongolia from the Republic of China and from the PRC, particularly from some members of the Chinese military.

Mongolia is ready and willing to offer its services as a mediator, especially on North Korea, and has no desire to align itself openly with any great power. Even so, China has become concerned that Mongolia is moving closer to the United States and Japan, as a result of the US effort to reposition itself in the Asia-Pacific region and of Japan's proactive diplomacy with regard to Mongolia.

The post-Soviet honeymoon period

Wei Lisu and Xia Anling review the history of recent China-Mongolia relations. Mongolia became a satellite of the USSR after the proclamation of the People's Republic of Mongolia in 1924. But Mongolia stopped prioritising relations with Russia in 1994. Officially, its leadership spoke of diversifying diplomatic relations, but unofficially, their intention was to focus on relations with China. Mongolia and China signed a "good-neighbour partnership of mutual trust" (睦邻互信伙伴关系, *mulin huxin huoban guanxi*) in 2003 during a state visit to Mongolia by China's President Hu Jintao. The alliance was elevated to a strategic partnership in 2011. Since then, bilateral meetings have increased in frequency, and China has become Mongolia's chief political partner.²¹

close economic ties. Zhang Haixia notes that the countries' economies are complementary: Mongolia has the raw materials that China needs, but to exploit them effectively, it needs Chinese technology and capital investment. Wu Yun writes that China has benefited enormously from Mongolia's greater economic openness and from its willingness to reduce its dependence on Russia. Moreover, Mongolia's move away from Russia has allowed it to dramatically increase its external trade, albeit at the cost of greater dependence on China, which has become its key trade partner since 1999. Trade with China enabled Mongolia to reach an annual trade surplus of \$2.1 billion in 2012, representing nearly 15 percent of its GDP. Raw materials such as coal and, to a lesser extent, wood and animal products, were Mongolia's most important exports. The trade in raw materials is also crucial to some Chinese regions. For example, raw materials account for 52 percent of Inner Mongolia's external trade.

Wu Yun says that Chinese industry has a strong foothold in Mongolia: 5,303 Chinese companies were registered in 2010, representing almost 50 percent of the total number of foreign companies in the country. Direct investment is sizeable: China's investment in Mongolia was worth \$24 billion in 2010, accounting for 51 percent of Mongolia's total foreign investment. China's closest competitors in foreign investment were Canada, with 8 percent of total foreign investment, the Netherlands, with 6.1 percent, and South Korea, with 5.3 percent. The other "great powers" invest very little in the country. Even Burma has put more money into Mongolia than have Russia and the US.

The special economic and trade relationship between Mongolia and China has had a significant and positive impact on Mongolia's economy. The economy has experienced double-digit growth rates since the end of the last decade. However, Mongolia's dependence on the Chinese market also makes it vulnerable. For example, the World Bank lowered its 2013 growth forecast for Mongolia from 16.5 percent to 12.5 percent because of a 24-percent drop in China's demand for coal over the first nine months of 2013.

²⁰ Evidence of this can be seen in the fact that the website of the Economic and Commercial Counsellor's Office of the Chinese Embassy to Mongolia, available at <http://mn.mofcom.gov.cn/>, is updated frequently, unlike that of the embassy itself.

²¹ In 2013, top Chinese officials Wu Bangguo and Yang Jiechi visited Mongolia, in January and May respectively. The Mongolian and Chinese presidents met in June on the sidelines of the Shanghai Cooperation Organisation summit in Bishkek, Kyrgyzstan. Chinese Defence Minister Chang Wanquan visited Mongolia in September and Mongolian Prime Minister Norovyn Altankhuyag came to Beijing in October.

Structural limitations on Chinese influence

China faces some structural barriers to increasing its influence in Mongolia. Wu Yun points out that competition for access to Mongolia's raw materials has increased, with Russia, Japan, and South Korea all seeking a share in Mongolian resources. In August 2011, South Korea signed a plan for cooperation with Mongolia on mineral extraction, and several foreign mining companies are already present in the Mongolian mining industry.

Wu says that the form of Chinese investment is a problem. Foreign investment projects are few in number, but each of them is substantial. Anglo-Australian mining companies BHP Billiton and Rio Tinto, for instance, have made large investments in the country's mineral sector, notably in the huge Tolgoi coal mine. Chinese investments in the sector have tended to be relatively small, even if they are now growing. This has stopped China from having a presence in the larger mining projects. Equally damaging, Chinese investments have not been strategically focused, especially in comparison to those of Russia. Russia is responsible for less than 2 percent of Mongolia's total foreign investment. But it is a key stakeholder in the joint venture Ulaanbaatar Railway Joint Stock Company, which owns 90 percent of Mongolia's rail transport. Russia has a 49 percent share in the Erdenet Mining Corporation, which controls most of Mongolia's copper and rare earth metals. And it holds 49 percent of Oriental Uranium, the main uranium extraction company in Mongolia. These investments give Russia a privileged position in Mongolia's strategic sectors.

All the authors agree that the investment climate for mining development in Mongolia needs to be improved. Wu Yun says that Mongolian law is complex and volatile. The adoption of a law on foreign investment (外资控制法, *waizi kongzhi fa*) in July 2012 made things even less clear. Wang Zhaobin says that Mongolia has regulations restricting the importation of Chinese labour. This limit caused the massive mining and aluminium producer, the Aluminum Corporation of China (CHALCO), to suspend its investment programmes in the country.

Zhang Haixia points out other barriers to economic cooperation. Mongolia has poor connecting infrastructure at customs and border posts and its rail network is old and inadequate. But the country's low population density, under 2 inhabitants per km², necessitates a relatively high level of infrastructure for ventures to succeed. Meanwhile, the country has a small internal market, with only 2.9 million inhabitants, limiting the potential for trade.²²

Initiatives to increase cooperation

Given these structural limitations, some of the authors think that China should rethink its economic relations with

²² By comparison, Inner Mongolia alone has 4 million citizens who are ethnic Mongolians.

Mongolia. Wu Yun says Chinese companies must improve their image in the country by paying more attention to the environmental and human dimensions of their activities in Mongolia. They could, for example, increase people-to-people exchanges.²³ During Mongolian Prime Minister Norovyn Altankhuyag's visit to Beijing on 22-26 October 2013, a new protocol was signed to add to the 2011 strategic partnership agreement. China's President Xi Jinping stressed three key points, which Wu Yun describes as a "triangle of cooperation" (三位一体、统筹推进, *sanwei yiti, tongchou tuijin*). Xi spoke of the need to establish better cooperation in the development of the mining sector in Mongolia, greater development of infrastructure between the two countries, and more substantial financial cooperation.

Wang Cong thinks one good way to encourage cooperation could be "the Silk Road Economic Belt" (丝绸之路经济带, *sichou zhi lu jingji dai*), which

Over the past three years, Mongolia has been reaching out to potential third neighbours in an attempt to "diversify" its diplomatic partners. Mongolia wants to remain "non-aligned" and "intermedial" in its foreign policy.

Xi Jinping first spoke of in a speech in September 2013 at Nazarbayev University in Kazakhstan. In another speech on 24 October 2013, the president spoke of the importance of economic policy

in the stabilisation of China's neighbourhood.²⁴ Mongolia was not initially included in the Chinese conceptualisation of the Silk Road Economic Belt. However, it joined the initiative at the end of 2013 through the efforts of the Mongolian government, particularly during the prime minister's visit in October, and of the National Development and Reform Commission (NDRC) of China's State Council, which organised a working conference on the subject in November.²⁵

China's concerns about Mongolia's "third neighbour" strategy

Former US Secretary of State James Baker coined the phrase "third neighbour" (第三邻国, *disan linguo*) during a

²³ According to Wang Xiaolong, China's ambassador to Mongolia, there were nearly 1.3 million border crossings from Mongolia to China in 2012, and more than 6,000 Mongolian young people are studying in China.

²⁴ "Speech by Xi Jinping on neighbourhood policy to the Working Conference on Neighbourhood Relations", *Xinhua*, 25 October 2013, available at http://news.xinhuanet.com/politics/2013-10/25/c_117878944.htm.

²⁵ The concept of the "Silk Road Economic Belt" was initially aimed at associating five Chinese provinces (Shanxi, Gansu, Qinghai, Ningxia, and Xinjiang) with the countries of Central Asia. The provinces of Sichuan and Inner Mongolia and the municipality of Chongqing were subsequently added to the list, as was Mongolia. Three "roads" encapsulate the concept: road transport infrastructure and logistics; oil and gas transport infrastructure; and the development of the transnational economy.

visit to Mongolia in 1991. Ever since, Mongolian diplomats have used it to refer to any relationship between Mongolia and a country other than China or Russia. Over the past three years, Mongolia has been reaching out to potential third neighbours.²⁶ Yan Xiaodong says the strategy signals Mongolia's attempt to "diversify" (多元化, *duoyuanhua*) its diplomatic partners. Mongolia wants to remain "non-aligned" (不结盟, *bu jiemeng*) and "intermedial" (等距离, *deng juli*) in its foreign policy.²⁷

Several of the writers raise concerns about Mongolia's efforts to reach out to third neighbours. The writers are afraid that Mongolia will become linked to what they see as an "anti-China" front. US-Mongolia relations were given new energy by the historic visit of US President George W. Bush and Secretary of State Condoleezza Rice to Mongolia in November 2005. As part of its "pivot" to Asia, the Obama administration sent Vice President Joe Biden to visit Mongolia in August 2011, and Secretary of State Hillary Clinton came to Mongolia in July 2012. Economic cooperation between the US and Mongolia is virtually non-existent and military cooperation is limited to the annual UN and NATO Khaan Quest training exercises. But the US regularly underlines the importance of promoting democracy and basing cooperation on democratic values. Writers such as Chen Xiangyang have interpreted this US values-based offensive as an effort to contain China.²⁸

Japan's prime minister, Shinzo Abe, has taken steps to build closer relations with Mongolia through his *Erch* initiative (the word *erch* means vitality in Mongolian). In March 2013, Abe visited Ulan Bator and stressed the importance of bilateral cooperation, especially in the energy sector. Japan is the leading provider of development assistance to Mongolia. It wants to develop a trilateral political dialogue between Japan, Mongolia, and the US, based on the idea that the three countries form a community of values. The *Ta Kung Pao* article criticises this Japanese activism, as well as the visits to Japan in September 2013 of Mongolian Prime Minister Altankhuyag and President Tsakhiagiin Elbegdorj. The author believes that Japan wants to use Mongolia to "contain" (围堵, *weidu*) China. Yan Xiaodong thinks Mongolia is developing new "security pillars" (安全支柱, *anquan zhizhu*) to protect itself from Chinese and Russian interference. Yan says that China must at all costs make sure that Mongolia's diplomacy does not "push Russia back to the north and contain China in the south" (北抑俄罗斯、南遏中国, *bei yi Eluosi, nan e Zhongguo*).

Even so, Mongolia does not in itself represent a threat

²⁶ In 2012, for example, Mongolia became the 57th member of the Organisation for Security and Co-operation in Europe (OSCE) and also one of NATO's "global partners".

²⁷ In July 2010, Mongolia's parliament adopted a new national strategy vision reaffirming its commitment to the basic principles of the country's diplomatic policy.

²⁸ In an article published on the CICIR website in August 2012. See Chen Xiangyang, "Three obstacles to a deepened cooperation in East Asia", *Renmin Luntan – People's Forum*, 7 August 2012, available at <http://www.cicir.ac.cn/chinese/newsView.aspx?nid=4001>.

to China's national security. And because it is extremely dependent on the Chinese economy, Mongolia cannot turn its back on Beijing to prioritise relations with Washington and Tokyo. Wei and Xia say that Mongolia is trying to use its non-alignment to position itself as a mediator in northeast Asia. Mongolia is, for example, working to solve the North Korea problem through its special relationship with North Korea and its promotion of the Ulan Bator dialogue mechanism (乌兰巴托对话机制, *Wulanbatuo duihua jizhi*). Mongolia's neutral position enables it to seem not to be in China's camp, but at the same time it allows China to support Mongolia's initiatives. Mongolia's President Elbegdorj became in October 2013 the first head of state to visit Pyongyang after Kim Jong-un's accession to power, although he did not actually meet the new North Korean leader. Some commentators have noted the content of Elbegdorj's speech at Kim Il-Sung University, in which he talked about human rights and regime legitimacy, economic liberalism, and Mongolia as a "nuclear-free zone".²⁹ Others point out the lengths to which Kim Jong-un went to avoid meeting the Mongolian president before meeting Xi Jinping, so as to avoid upsetting his Chinese neighbour. Kim Jong-un's visit to China has not yet taken place.

The year 2014 marks the 65th anniversary of the establishment of diplomatic relations between China and Mongolia, and it has been declared the "year of friendship with Mongolia" in China. It represents an opportunity for the two countries to extend their strategic partnership. Mongolia seems more than ever to be an almost perfect neighbour – even if it remains a little too independent for China's complete comfort.

²⁹ The Mongolian President even said that "no tyranny lasts forever. It is the desire of the people to live free that is the eternal power."