

**Dr. László Gulyás, PhD**

# **The China – Mongolia – Russia Economic Corridor**

**A Brief Introduction to the Belt and Road Initiative**

This teaching material has been made at the University of Szeged,  
and supported by the European Union. Project identity number:  
EFOP-3.4.3-16-2016-00014

**SZÉCHENYI** 

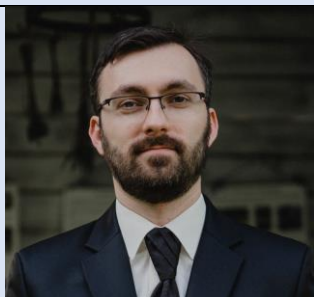


HUNGARIAN  
GOVERNMENT

**European Union**  
European Social  
Fund



**INVESTING IN YOUR FUTURE**



**Dr. László Gulyás, PhD**

**Estimated reading time:**

**18-20 minutes**

**Estimated learning time:**

**45-50 minutes**

## **Class VI: The China – Mongolia – Russia Economic Corridor**

### **Summary**

This course explains the relationship between Russia, Mongolia and China. Furthermore, it gives a glimpse on the workings of the Eurasian Economic Union and Shanghai Cooperation Organization.

### **Topics of the class include:**

- The Shanghai Cooperation Organization and Eurasian Economic Union
- China – Mongolia Economic Corridor
- General overview of the relationships of the three countries

## Russia

**One of the most important country** for the „Belt” part of the Initiative (other than the Central Asian ones) is Russia, simply **because of its sheer size and its location**. Hence Russia can be viewed as a **key factor in relation to the success of this part of the BRI**. If Moscow was to in any way hinder the implementation of the Initiative, it would suffer a serious blow. The New Eurasian land bridge ends in Western Europe and major land trade routes go through Russia to reach European cities such as Hamburg and Rotterdam. **Had Russia not participated basically the whole concept of this economic corridor could have been thrown out of the window.**

Luckily for the BRI – and with it, China – this is not the case. **Recently the relationship between China and Russia is better than ever before in their common history**. Both of them mentioned BRI as a milestone in the Sino-Russian Cooperation. However, the situation was very different at the beginning of the Initiative’s announcement.

**Initially Moscow was not amicable toward the concept of the New Silk Road:** it did not want to participate in the BRI and neither did it want to see it made possible. The same thing can be told about the Asian Infrastructure Investment Bank as well. The reason for this is quite simple. At first **China’s original plan was to leave Russia out** of the equation completely meaning that it wanted to circumvent Russia altogether with its planned routes. That would have meant a serious loss in influence for Moscow in the neighboring countries, not to mention the tremendous amount of money that it would have lost (the income from transit trade would have been basically nullified).

### Shanghai Cooperation Organization

The beginnings of the Shanghai Cooperation Organization (SCO) can be traced back to 1996 to the so called “Shanghai Five” concept which was basically formed to settle border disputes between China, Russia, Kyrgyzstan, Kazakhstan and Tajikistan. After the border issues have been settled the organization changed. First, it declared that no participating member will intervene in other countries’ internal affairs on any basis and they vouched that they will ensure each others’ sovereignty and territorial integrity. Shortly after this change Uzbekistan has joined the “Shanghai Five”, and the six countries has formed the SCO in 2001. The SCO is a political and security cooperation where the questions of economy is present, but only to a lesser degree. When the SCO was formed the (additional) concept of an economic union was preferred by the People’s Republic of China, but not so much for Russia. Structural and productivity differences were huge, and we must also keep in mind that Moscow wanted to regain (at least some of) its economic influence amidst the post-soviet republics and Beijing was a distracting factor to this. Thus, Moscow was reluctant to form an economic union with the participating countries of the SCO (only to later form the concept of the Eurasian Economic Union – only this time, without China; see later).



1. Picture: Flag of the Shanghai Cooperation Organization.

Source:

[https://en.wikipedia.org/wiki/Shanghai\\_Cooperation\\_Organization#/media/File:Infobox\\_SCO.png](https://en.wikipedia.org/wiki/Shanghai_Cooperation_Organization#/media/File:Infobox_SCO.png)

In 2017 two additional countries has joined the organization as a member state: Pakistan and India (which in itself presents a very unique challenge to the organization). In addition to the 8 member states there are 4 observer states and 6 dialogue partners who are participating in the SCO one way or another.

Although the SCO might not be as important or famous like the NATO for example, one cannot underestimate its importance simply because its sheer

size: the participating states has a cumulative population of 3 billion people. An important distinction between NATO and the SCO is with the latter there are policy coordination in military/security questions but there are no obligations to take action. Each member decides individually what they want to do in any given situation.

After border disputes were settled between the founding countries, military questions have turned into security ones. Those being: terrorism (be it secular or religious) and separatism. Member states emphasize that they do not wish the SCO to be formed into an anti-western (or anti-NATO) military bloc but to solely focus on the security of the region. This is especially important for China because of its Xinjiang Province. The Xinjiang Uygur Autonomous Region is very important for China because of its immense size and because of its vast mineral and natural-gas reserves, not to mention that it is the gateway to the West for China. Thus, the security of this area is crucial in order to make sure that trade and hydrocarbon transport (via pipelines) is reaching Beijing in the east. The security of the whole Central Asian region is required to keep Xinjiang from external threats: the province has an almost 3000 km long border that is shared by multiple Central Asian countries. China alone cannot ensure that no foreign extremist groups ooze into Xinjiang without the help of neighboring countries since in recent years more and more extremist groups or terrorist cells are coming from outside of China and try to operate in Xinjiang. And then there is the fact that the Uygurs want to be more autonomous and a large portion actually want to be independent to form their own country. Tension is continually increasing as more and more Han Chinese are settling in Xinjiang (changing the ethnic map), there are income disparities and employment discrimination and forceful assimilation is not unheard of. Not to mention the more and more oppressing “resocialization” of the Uygurs.

So all in all, the SCO is an important tool in the hand of Beijing to try and consolidate Xinjiang whether the danger is external or internal (do not forget: members of the SCO will not intervene in internal affairs).

## Eurasian Economic Union – problems with integration



2. Picture: Flag of the Eurasian Economic Union. Source: [https://en.wikipedia.org/wiki/Eurasian\\_Economic\\_Union#/media/File:Flag\\_of\\_the\\_Eurasian\\_Economic\\_Union.svg](https://en.wikipedia.org/wiki/Eurasian_Economic_Union#/media/File:Flag_of_the_Eurasian_Economic_Union.svg)

**The BRI would have been competing with Russia's very own organization for cooperation in the region, namely the Eurasian Economic Union (EEU – established in 2014 by Russia, Kazakhstan and Belarus).** The concept of the EEU is based on the fact that with the dissolution of the USSR Russia's and the Central Asian countries' GDP have declined rapidly and they have started to look for a solution (actually the GDP declined way before the dissolution of the USSR, but that is another

topic). **The origin of the organization can be tracked back to the formation of the Commonwealth of Independent States in 1991.** The first proposal for a common market for CIS countries was made in 1994. After that gradually many more ideas have been added to the initial concepts, eventually leading to the formation of the European Economic Union. As of 2015 the member states of the EEU are: Russia, Belarus, Kazakhstan, Kyrgyzstan, Armenia.

**The EEU has erased tariffs between the participating countries but actually increased the tariffs for investments coming from the outside of the EEU.** The election of protective tariffs meant to help strengthen the domestic companies. It is favorable not just for local investments, but also for the production of goods that are made within the borders of the EEU, meaning this economic policy is favorable to exporters. To enhance the economic cooperation further between the member states the introduction of a common currency is planned which is supported by Russian premier Vladimir Putin – at least nominally since it is not really in Russia's interest to weaken the Ruble.

However, the **level of integration is not really clear**, and further advancements are questionable, since cooperation between Central Asian countries between themselves and Russia after the dissolution of the USSR is problematic at best.

**For the EEU to work with the BRI first it needs to actually function as an integrated organization, but it has a number of challenges regarding this.**

First of all, the EEU is **strongly dependent of Russia's economy**, most importantly its gas and oil industry. This means two things. First, the economic strength of the Organization is – at least partially – tied to the all-time prices of crude oil and natural gas. That leads to a certain amount of volatility. Second, **the economic development of the EEU is tied to Russia's.** Now this is a problem because Moscow has huge economic sanctions imposed on it by the US and Europe since its invasion of the Crimea and some parts of Eastern Ukraine. Since 2014 the number of sanctions has increased instead of the other way around (reasons for this include usage of weaponized chemical compounds, the

support of Assad's regime in Syria and so on). Furthermore, it got hit hard by the low level of crude oil prices of 2018 and again in the first half of 2020 (because of COVID-19). With export orientation and problems with the economy inside of the EEU, this will be a huge problem for their aim to make a working, continuously improving economic union. Actually, it looks like that the opposite is happening as of 2020: **with the current economic situation** (even without and/or before the global pandemic) **it is more likely that participating states will actually elect protectionist policies against each other.**

Secondly, the EEU has some very interesting inner contradictions which will (and does) impact the process of its own development. We have seen that the EEU favors protective economic policies but at the same time **EEU member states are too highly dependent on countries who are not members of the Union**, and their investments for their own economic growth. **But the EEU is actually slowing investments and imports from outside** the Union. All the while, the EEU itself is not able to fully provide the necessary markets for their own goods (or is not able to create enough of said goods). With the exception of Russia, whose companies are able to spread their goods in the EEU countries without real difficulties. So, there might rise a situation where it is a possibility that countries not joining (or leaving) the EEU will actually develop at a faster rate. And there is always the **question of independence and fear of overdependence on Russia**. Remember: these are post-soviet states and there are many people living in those countries who do not consider Moscow as their friend.

Thirdly, cooperation between Central Asian countries is problematic in itself. To begin with, they are widely different in respect of their advancement level (be it economic, socio or political), and also **many territorial disputes** are poisoning their relationships. Not to mention Kazakhstan and Uzbekistan both vying to be a regional power.

Fourthly, although it was its aim since its formation year, **EEU still lacks a common market** especially regarding the energy sector (that means that the member states take their hydrocarbons to the international market separately). Some countries wanted to pursue this aim faster, while others wanted to take a slower approach, resulting in very long negotiations. Many doubt that the energy sector will ever be integrated.

Lastly there is no real timetable set to establish a common currency and central bank. Even though nominally every member state supports this notion, in reality every country wants different things. Some want to make a new currency, while Russia wants the common currency to be Ruble, and the central bank to be based in Moscow. Belarus and Kazakhstan strongly oppose this. So, it is easy to see that there is a very long way ahead of the Eurasian Economic Union.

## Relations with China

**Russia feared that the Central Asian countries would turn towards China** completely, which would have led to **a loss of influence for Moscow**. However, these fears were calmed down relatively swiftly as **the Chinese government announced** (although at first,



as we have mentioned, they wanted to circumvent Russia) **to accommodate Russia's needs in the region**. Following this, **Moscow has endorsed the BRI** wholeheartedly and declared that the EEU and the BRI will be linked together (2015). After this, trade between Russia and China has increased significantly and is growing rapidly to this day.

What made it possible is that **China has shown considerable flexibility regarding the plans and the routes of the BRI**. They have integrated the Initiative's planned pathway into an economic corridor with Russia (and Mongolia) thus connecting to Russia's transcontinental railroad plan (Trans-Eurasian Railways – which in itself contains plans for the modernization of the Trans-Siberian Railway). In addition, China's **“Three Nos” principle** helped ease Moscow's concerns regarding its influence in Central Asia.



3. Picture: The Trans-Siberian Rail Line. Source: [https://en.wikipedia.org/wiki/Eurasian\\_Land\\_Bridge#/media/File:Map\\_Trans-Siberian\\_railway.png](https://en.wikipedia.org/wiki/Eurasian_Land_Bridge#/media/File:Map_Trans-Siberian_railway.png)

These principles are:

- no interference with internal affairs
- no desire to seek a dominant role in regional affairs
- and no desire to make a sphere of influence among the Central Asian countries

This shows that **China has no intention of changing the status quo** - although we have to mention that Beijing does not recognize the region officially as Russia's sphere of influence. It only wants to **widen trade and economic integration**. There are some reasons why Russia eventually fell in line regarding the Belt and Road Initiative.

First – although a significantly lesser degree compared to other countries, like Pakistan – the initiative is a channel for funding infrastructural development in Russia. Russia's transcontinental rail has been connected to BRI and once the China-Mongolia-Russia economic corridor started to function (at least partially), **freight volume skyrocketed on the railway routes from China to Russia**, and then to Europe via Russia, both of which used Russia's transcontinental railroad system. This obviously had a positive effect for both countries – although strictly speaking Russia was not in need of China's help and money for the transportation modernization it definitely did not hurt to have the extra capital.



4. Picture. Map of Russia. Source: Public Domain, <https://commons.wikimedia.org/w/index.php?curid=2964119>

Second, EEU is currently Russia's priority. Though **initially BRI was viewed more as a rival, China's clarification and commitment on connecting the two projects eased Russia's concerns to a large extent**. In 2016 the two governments decided to formally start negotiations on an economic partnership which focuses on trade facilitation, merging different standards on intellectual property, customs, and other areas.



Third, (and this one is obviously not an official stance) it is highly likely that the Russian government realized it is not necessarily a good idea and probably not even feasible financially to try to contain China's influence in the region.

Even though the influence of Russia can still be considered dominant in most of the Central Asian region (based on its close political, economic, cultural, language and even people-to-people ties with the five post-soviet republics in this area), **the post-soviet republics here have long been seeking to try to reduce their overdependence on Russia.** For this **China presents an excellent opportunity** (and that is why Moscow was not entirely fond of the concept). The very reason for this was that in the past decade, China's economic influence in this region grew truly fast, meaning that China has been able to compete with Russia (and in certain fields even surpass it).

In recent years Beijing's political influence has increased as well especially because of cooperation on areas such as anti-terrorism and security in general. These facts make it real difficult for Russia to keep the Central Asian countries under its sole influence.

Maybe the most important thing why **Russia began to support the BRI** is the annexation of the Crimea which had a very ill effect on Moscow: **the country entered into a recession**, with negative GDP growth for the first quarter of 2015, as compared to the first quarter of 2014. It was regarded as a consequence of the Western sanctions (as in it caused substantial damage to the Russian economy). Under this great pressure, it is no surprise that the Kremlin turned to the East and sought cooperation opportunities from China. Though Beijing did not and does not support Russia's annexation of the Crimea it did not condemn it either, keeping a neutral stance. It did so because, it has a great deal of interest in strengthening bilateral cooperation with Russia in economic, military and other areas. The reason for this is again very simple: it also faced growing pressure from the West because of its South China Sea policy. It is most likely that joining the BRI could not have brought and cannot bring enough benefits to Russia to counteract its significant losses from the Western sanctions, but it was at least a partial workaround.

So, a positive attitude towards the BRI is almost mandatory for Russia if it hopes to get more financial support from China, be it from the AIIB, the Silk Road Fund or from bilateral projects.

**On the whole, the benefit of BRI is as much symbolic as substantial for Russia but since the Initiative is not lead by it, the main influence remains with China, thus Russia is sticking to the EEU project and considers BRI as an addition.**

There is also a problem regarding the basic concept of the two organization/policy. **EEU is as much a political project as an economic** (and Russia tries to make it even more of a political alliance) **while the Belt and Road Initiative is concerned with the latter.** Furthermore, another fundamental difference is that **the EEU is oriented inward while the BRI is focusing on foreign countries.** BRI wants to create multiple free trade zones, merging into one global area where trade is completely unimpeded, all the while EEU aims

for a custom union that is good for participating states but more of a hindrance for outsiders. Additionally, EEU is focusing on detailed cooperation and integration, while China's initiative is much more for a practical approach, mutually coordination in energy and transportation without actually wanting the harmonization of interstate policies.

There are some issues regarding the BRI when it comes to Eastern Russia which still shows that there are some tensions between Moscow and Beijing. The first is the Amur river itself: this natural border between Russia and China basically hinders trade and transportation because there are no large bridges over it (this has its roots in the Chinese-Soviet border disputes of the 1960s). The other thing is there are still voices amongst the local Eastern Russian population that the BRI would mean a huge infusion of Chinese people into their territory who will take over their land economically (and might even do so militarily). The old concept of the "Yellow Peril" still lives on.

## **Mongolia**

The **Mongolian People's Republic (existing between 1924 and 1992), was a client state of the USSR.** Most of the country's modernization and the construction of its **infrastructure was done by the Soviets.** Although for hundreds of years Mongolians were herders and most of them was dependent on animal husbandry, this have changed in the 20<sup>th</sup> Century. There was strong urbanization during this period, which was further accelerated after its regime change in 1992. Nowadays approximately two-third of the country's population live in urban centers and the capital city of Mongolia, Ulaanbaatar, holds almost half of the populace of the country.

By the dawn of the 21<sup>st</sup> century, exports accounted for more than half of Mongolia's total GDP and many of the local people abandoned animal grazing. Although, among the exported goods there are still a lot of things related to animal husbandry and agriculture (animal products, wool, hides, livestock) **most of Mongolia's export is made up of raw materials: nonferrous metals, coal, crude oil and most of these goods are traded with China.** The latter means that **it is overdependent on Beijing's imports** (and generally on Chinese economy which could be quite the risk). Furthermore, since a good amount of its income is coming from the export of raw materials, if the prices of those for whatever reason decrease drastically on the global market that could singlehandedly bankrupt Mongolia. Thus, the country definitely needs some diversity in its economy and export scheme (including trading with countries other than China).

### **The China-Mongolia-Russia Economic Corridor – The Mongolian perspective**

Plans of the Corridor was announced in 2016. Development designs of the Corridor include: review customs procedures, trying the create the framework for a tighter cooperation in the energy sector and in industrial areas (high tech manufacturing and the modernization of mines). Furthermore, they are vying to **expand trade across all three countries and to extend the range of services, improve education and science help cultural exchanges and promote tourism.** Out of these the **most noticeable is the**

**improvement of trade:** new railways and highways have been built (and old ones got renovated) which multiplied transit-trade for Mongolia.



5. Picture: Map of Mongolia. Source: By CIA - CIA, The World Factbook, 2004, Public Domain, <https://commons.wikimedia.org/w/index.php?curid=69773>

Since **Mongolia is a landlocked country with only two neighbors (China and Russia) the Mongolian government considers the Corridor as a way to overcome this separation from the global community** and one that could be used to help improve its infrastructure in tandem with its own development program (the Prairie/Steppe Road program – depending on how you translate it).

Participating in the Belt and Road Initiative obviously have **huge potential for Mongolia** and could benefit the country tremendously. However, **there are also drawbacks**. Possibly one of the major issues is the **question of Chinese influence**. As the completion of the Mongolian part of the Corridor would require a large sum of capital injection (which means Chinese investment in the form of loans) **Mongolia's debt would increase** even further (and it is already three times its annual GDP). This would inevitably mean that Mongolia **would be attached to China even stronger than before**, so the previous overdependence could grow even further. This could lead to Mongolia not able to pay their BRI-related debts and would be forced to create concessions for 50 or more years over mines, trade hubs etc. and “hand them over” to Beijing (like with the case of Sri Lanka where the newly built port has been given to the PRC “to use” for 99 years).

Other likely issue is the inflow of migrant workers to Mongolia which could cause tensions within the local population. Furthermore, foreign investment and the establishment of new companies could hurt domestic entrepreneurs. Last, but not least, as Mongolia is stuck between two countries it has to make sure that good relationships are kept with both neighbors. That means that overdependence on the BRI might result in certain political issues for Mongolia.

**Questions for Self-Checking:**

How would you define the relationship between Russia and China and why? Is it positive or negative? Maybe neutral?

Why was Russia reluctant to support the BRI? Why did it change its stance?

Why Mongolia's overdependence on China could be dangerous for the country?