MONGOLIAN-CHINESE ECONOMIC COOPERATION AS AN IMPORTANT FACTOR IN NEA ECONOMIC REGIONALISM

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Mongolian-Chinese economic and trade relations went through a dramatic expansion in fifteen years from frozen relations during the Sino-Soviet cold war to all round partnership during 1990-2006. A number of factors contributed to this extraordinary development. Economic opening of both countries toward the end of the 1980s did change the environment between two countries. The collapse of the USSR and Mongolia's independence was embraced by the Chinese leadership when Ulaanbaatar chose a market economy as its main blueprint of the reforms.

The political and economic relations between two countries went through three-phase process. The first phase of 1987-1991 was characterized by full normalization of bilateral relations. The second phase of 1991-1994 has brought the new legal basis to bilateral relations. The third phase 1994-2006 was characterized by the exchange of top level visits which projected long-term, stable relations towards the new century.

One. High-level Political Dialogue

President N.Enkhbayar visited China in November 27-December 3, 2005. He met top Chinese leaders: Hu Jintao and Wen Jiabao. Enkhbayar stated that "Mongolia is attaching the highest priority to its relations with the PRC in Mongolia's overall foreign policy of multi-pillar, independent and open nature characteristics and political and legal environment of bilateral relations are becoming more and more stronger:" Mongolian newspaper also reported that two countries have no political, legal, border problems, and no conflict of interests which creates excellent condition to actively develop friendly bilateral relations and cooperation.[1]

Highlight of this visit was the Joint statement describing fundamental principles of bilateral relations projected towards the XXI century. The statement outlined such principles as long-term, stable, healthy, and mutually trustful as fundamental for bilateral relations in the next century. The statement basically confirmed what was codified in new bilateral treaty of 1994.

Hu Jintao, Chinese President, visited Mongolia in 2003. It was the highest level confirmation of Chinese leadership that Beijing, acknowledges the independece and sovereignty of Mongolia and determined to have good-neighborly relations based on the principles of peaceful co-existence.

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During that visit, the two heads of State had agreed to further cooperation on finance, mining, infrastructure, and sandstorm prevention. Chinese President Hu Jintao put forward a four-point proposal to promote Sino-Mongolian relations, including conducting economic and trade cooperation reciprocity. “Resourses exploration and infrastructure cooperation should beat the top of the agenda, and the projects agreed by the two sides should be initiated at an early date”, as reported People’s Daily, Hu Jintao told to President of Mongolia.

Two. Trade and Economic Relations

If we look into past five decades in terms of Sino-Mongolian trade, the first decade in the 1950s was the period of stable growth, the second decade of the 1960s was the decline, the next two decades saw the stagnation in bilateral trade, the last decade in the 1990s brought an unprecedented growth in bilateral trade. Payment method was also different in these decades. Soviet ruble was the main payment method for 1951-69, national currencies for 1970-76, swiss frank for 1976-90, US$ became the main payment method since 1990.

China became Mongolia’s largest trade partner in 1999. China’s share both in Mongolian export and import is increasing steadly. If China’s share in Mongolian export was 24.7% in 1993, it became 58.9% in 2000, If China’s share in Mongolian import was 17.6% in 1993, it became 20.5% in 2000. By 2000, China became the largest importer of Mongolian minerals and other goods (58.9% of Mongolian export), ahead of the US (19.9%), Russia (9.7%), and others (11.5%). Similarly by 2000, China became the second largest exporter to Mongolia (20.5% of Mongolian import), only after Russia (33.6%), and ahead of Japan (12.)%) and South Korea (9.0%)[2].

Table of Sino-Mongolian trade (in million US$)(Footnotes)

Years	1995	1999	2000	2001	2002	2003	2004
Bilateral Trade turnover	147.0	285.7	400.2	351.7	356.8	448.2	661.3
Export	80.9	208.2	274.4	231.9	217.3	276.7	407.8
Import	66.0	77.6	125.8	120.2	139.5	171.5	253.5
Balance	14.9	130.6	148.6	111.7	77.8	105.2	154.3
Share of PRC in total trade turnover (%)	15.7	29.5	34.8	30.3	29.4	31.6	35.5
Share of PRC in Mongolia’s export (%)	15.5	45.8	51.2	44.5	41.5	46.1	47.8
Share of PRC in Mongolia’s import (%)	15.9	15.1	20.5	18.8	20.2	21.8	25.1

Source: Ministry of Trade and Industry, Government of Mongolia.

Traditional items of Mongolian export to China consisted mostly from animal husbandry raw materials accounting for about 80-90 percent of Mongolia's export to China consisted of animal skins and hides (30 percent of exports to China), raw cashmere and wool (38 percent), and copper concentrate (17 percent). By 1999 China for the first time became the main buyer of copper and copper concentrate of Mongolia. At present, 94 percent of copper concentrate, 100 percent of molybdenum concentrate, and the most of raw cashmere, skin and hides, 49.5 percent of processed cashmere are exported to China.[3] This factor contributed to the dramatic growth of Mongolia's export to China almost 40% in 2004 comparing to previous year (see the above table). Import from China consists mostly from food, consumer products, and construction materials.

Mining products like copper, fluorspar and molybdenum concentrates accounted for 40.6 percent of total Mongolian exports by value in 2004. Raw and processed hides, skins and other animal origin products made up a further 2.7 percent. Textiles and textile articles accounted for 22.8 percent following the mineral products. In import structure, machinery and vehicles (30.2 percent), and vegetable products and prepared foodstuffs (15.6 percent), mineral products (22.9 percent) constituted major import items by value in 2004.[4]

In the export of Mongolia to China, copper ore and copper concentrates constitute single largest item. For instance, in 2004 alone 556.2 tons of copper ore and concentrates worth 280.6 million US$ (almost 70 percent of total export volume to China) was exported to China. Foodstaff and consumer goods accounted for the most part of import from China.

Border trade. Border trade agreement was first signed in November 1985 in Ulaanbaatar. It had a dramatic growth during 1986-1991 from merely 630,000 swiss frank to about 30 million swiss frank in 1991.

Two governments further exchanged Letters on border trade during the third meeting of the inter-governmental commission on economic, trade, science-technological cooperation held in April 1994 in Ulaanbaatar. According to these Letters and other agreements, border trade was conducted through ten border points including one permanent through Zamyn Uud-Erlian, and nine seasonal ports.

On Chinese side, main trading partners were local traders from Chinese Inner Mongolia until 1994. Then traders from coastal and southern regions of China, like Shandong, Guandung, Fujian and others, joined the border trade between China and Mongolia. This factor has brought the increase in the import price of animal products from Mongolia to China. For instance, the price of sheep skin cost US$ 6.25, horse skin US$ 15, cow skin US$ 16.6, and one kg of cashmere US$ 27.5 in Ulaanbaatar market in January 2005.[5]

Although border trade was regulated by inter-governmental agreements in 1994 and further it contains a lot of deficiencies and problems. Traders and economic entities from both sides frequently use fake trade documents, delay payment to each other, ship poor quality goods, smuggle goods and do other trade malpractices. Because of poor facilities on Mongolian side border trade operations mostly conducted on the Chinese territory. This factor has brought some complaints from Mongolian traders on one-sided nature of border trade in favor of Chinese traders.

Loans and Grant aid. During the 1950s, the Chinese government provided both grant aids and concessional loans for Mongolia. Grant aid of 36.0 million ruble provided in 1956 and 1960 in two installments was used for the construction 18 projects including textile factory, Nalaikh glass factory, Suhebaatar power plant and road building.

From loans of 67.5 million ruble provided in 1958 and 1960 in two installments 46.1 million ruble was actually used for the construction of a number of projects including most notably 50,000 square km apartment complex in Ulaanbaatar, Tolgoit power plant, stadium and sports building in Ulaanbaatar, numerous bridges in aimaks.

Since the visit of Yang Shankun, Chairman of the PRC, in August 1991, the Chinese government has provided several installments of grant aids mostly used by the Mongolian government to purchase food products from China. During 1991-1998, a total of 42.6 million RMB grant aid was provided by China.

In the 1990s, the Chinese government provided interest-free loans in three installments: 50 million RMB in 1991, 30 million RMB in 1992, 50 million RMB in 1994. In August 1995, two sides chose 15 projects for financing from these Chinese loans. Remaining part was agreed to use for the "Super market" projects and for the purchase of construction materials from China.

During the visit of Natsagiin Bagabandi, President of Mongolia to China in December 1998, the Chinese government pledged to provide grant aid of 30 million RMB and additional concessional loans worth of 100 million RMB. Two sides agreed to use these additional loans for the construction of apartment complex in Ulaanbaatar.

Chinese President Hu Jintao during his visit to Mongolia in June 2003 pledged to render US$ 300 million loans to Mongolia. Chinese government designated Export-Import Bank of China as a Bank representing Chinese interests and provided these loans will be utilized for high efficiency projects in the areas of mining and infrastructure development. Six rounds of negotiations were held between two parties during July 2003 and July 2004. General framework agreement was signed during President Enkhbayar's visit to China on a preferential export credit worth US$ 300 million.

Investment from China. The Mongolian Law on Foreign Investment was adopted in 1990 and was revised in 1993. Due to its natural disadvantages including land-locked ness and high transportation costs Mongolia was not able to generate much foreign investment. Changes into mining legislation in 1996 did generate some interest from foreign investors in mining, especially in gold mining.

China was well positioned to exploit the opportunities created by new liberal legislations designed to create extremely favorable environment for foreign investors. Mongolia has signed with China several agreements on avoidance of double taxation as well as treaties on mutual protection and encouragement of investment. During 1990 and 2004, a total of 1601 Chinese companies were registered with Mongolian Foreign Investment Board investing a total of US$ 457.6 million. In 2004 alone, Chinese investors invested US$ 125.9 million which increased 2.7 times compared to previous year. According to statistics, 68.5 percent of Chinese investment went to mining, 24.1 percent to retail sale and restaurants, 1.1 percent to construction, 0.6 percent to light industry, and 4.2 percent to other industries.[6]

Understandably, Chinese joint ventures were mostly invested in the construction business, restaurants and fast food, retail sale business. Lately, Chinese investment is moving towards mining, agriculture. Although China retains number one position among foreign investors by a total investment committed so far, there is a number of weak points with Chinese investment. Firstly, most of small Chinese investors use the registration rather to obtain a long-term residence permit than actually to invest and to do a business. Secondly, a low requirement of the initial capital to register (US$ 10,000) makes easy for Chinese people to register for a joint venture but engage in other activities.

Tourism. Tourism is another branch of economy with broad future for Mongol-Chinese cooperation. There are ways to collaborate in this field. First, encourage the travel of people of two countries, second, promote mutual investment in tourism industry to operate transnational tourism like including tourist destinations in Mongolia, Russia, and China. According to Chinese statistics, 399.1 thousand people from Mongolia visited China in 2000. Average expenditure per visitor from Mongolia was estimated USD 377 a day.[7] According to that estimation, Mongolian visitors contributed USD 151 million to China in 2000 alone.

In 2000, 158 thousand foreign passengers entered through Mongolian border posts, 58.3 thousand of them were from China. There is a great opportunity to develop cooperation of China and Mongolia in international tourist industry, and certainly the new membership of China in WTO, will give positive influence. Negotiations to conclude framework agreement to include Mongolia into the number of most favored tourist destination countries where Chinese tourists can visit in groups are underway.

Prospects for Cooperation in Mining. China is expected to experience large deficit of raw materials in coming twenty years. China's crude oil consumption was expected to reach 270 million tons in 2004, including more than 100 million tons of exports. Some of its demand can be met by imports from Russia, Mongolia. For instance, Mongolia has discovered a large deposit of oil, in the bordering province of Dornod, in the Tamsag valley.

China accounts for about 20 percent of global copper consumption, double the rate a decade ago, and the country's appetite shows no signs of abating. Copper prices have almost doubled in the past two years as demand surges in China, the USA and Japan. Exports of copper accounted for more than 70 percent of Chilean exports to China in 2003 and it becomes necessary for China to purchase mines abroad and establish joint ventures to ensure further supply. On the other hand, copper is one of the major export products of Mongolia. In addition to Erdenet mining, it has been reported to discover several new mining deposits in Mongolia and the need to attract direct foreign investment. Tsagaan-Suvarga copper deposit, located 164 km southwest of the Zuun-Bayan railroad station, is located in the semi-desert area, underpopulated and water scare region of Southeast Mongolia. Commercial ore reserves of the deposit have been estimated at 220-240 million tons. The gold and copper reserves of another Oyu-Tolgoi deposit, which is situated in Khanbogd soum, Umnugobi aimag, is estimated to have reserves of 3.2 million tons of copper and 448.7 tons of gold.

Conclusion

China has emerged as the largest trade partner and the biggest private investor for Mongolia in less than a decade since 1990. While Russia and others still enjoy some political and economic influence in Mongolia, it is China that is emerging as the main partner for Mongolia. For landlocked Mongolia, vital roads to south and east literally runs through China.

Proximity and economic complementarity make two countries natural partners for increased economic interaction and trade. "Far Eastern Economic Review" wrote recently that "The result of this growing economic engagement is an expansion of China's soft power- a nation's ability to get what it wants by attracting and persuading others to adopt its goals, instead of through blunt economic and military suasion".[8] As Chinese energy demand rises, a stable and neutral Mongolia is important for China as a minerals exporter and a transportation corridor between resource-rich Russian Siberia and Far East and resource-deprived coastal and central China.

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