

The Role of Transport and Logistics Components of Mongolia in the Development of Euro-Asian Economic Cooperation

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Abstract: *This article assesses the implementation of Mongolia's "New Recovery Policy", evaluates the current status of cargo and passenger transport, analyzes the impact of the Covid-19 pandemic on these sectors, and identifies issues within the transport and logistics industry. Following the research, three primary conclusions were drawn: firstly, proposing actual solutions to the problems mentioned in this study; secondly, to augment transit traffic passing through Mongolia; and thirdly, the establishment of an autonomous government body, crucial for creating the central economic corridor connecting China, Mongolia, and Russia. The proposal suggests establishing an analysis institute to coordinate medium and long-term development policies of Russia and China, manage projects in the transport infrastructure domain, align legal frameworks among the three nations, and oversee the construction of the corridor.*

Keywords: *Mongolia, Russia, China, logistics, transportation, corridor, economy, government organization, research institute, development policy, legal acts, etc.*

The Measures Taken by the Mongolian Government to Develop the Road Transport Sector

In 2021, Mongolian Parliament approved "New Recovery" policy. The policy is estimated to rely on the active public and private partnerships, encompassing "Recovery of public sector

efficiency", "Energy recovery", "Industrial recovery", "Green development recovery", "Urban and rural recovery", "Border ports recovery".

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Table 1. Activities to be implemented within the “Border ports recovery” policy by the Government of Mongolia

Formal objectives of the program	Some major developments under the program
Develop hard and soft infrastructure of ports, improving freight and passenger capacity and increasing exports	Establish railway connections between Gashuunsukhait, Khangii, Bichigt, Shiveekhuren, and Artssuuri ports
Fully connect border crossings by railways and paved roads in stages, improve the competitiveness of transport and logistics, improve cargo flow and lay the groundwork for potentially becoming a transit country in the future	Establish road connections among ports such as Khangii, Tsagaandel, Burgastai, Tsagaannuur, Tes, Artssuuri, Khankh, Baga Ilenkhi, Zelter, Ulikhan, Khavirga, Sumber, Bayankhoshuu and Bichigt
Enhance Mongolia’s airspace organization and optimize airway utilization to accommodate more transit aircraft. Establish a cargo hub by progressively advancing the liberalization of air transport while supporting the tourism sector	Start the construction of a 987 km highway linking Altanbulag and Zamin-Uud dry ports to connect border crossings via a highway network
Increase trade turnover by establishing free economic zones and dry ports in stages based on regional development concept of Mongolia	Include the goals to gradually improve the competitiveness of the region’s economy

Source: “New Recovery Policy” of Mongolia, Annex 1 of the Resolution No. 106 of 2021 of the Parliament, <https://legalinfo.mn/mn/detail?lawId=16390082532431&type=3>

As depicted in Table 1, it is understood that by developing the hard and soft infrastructure of the border ports and increasing the throughput capacity of cargo and passengers, the cooperation between ports by railways, paved roads and air transportation will be carried out in stages, laying the foundation for the development of mixed transport, increasing domestic and transit transport and establishment of free economic zones.

In addition, it is intended to implement

the following seven projects to enhance the capacity of road transport border crossings and build cargo terminals. These projects include initiatives such as the implementation of driverless and automatically controlled intelligent transport systems at Zamin-Uud Free Zone and various border ports like Shiveekhuren, Gashuunsukhait, Khangii, Bichigt, Artssuuri, and Altanbulag. Additionally, there are goals to simplify and digitize the operations of border ports.

Table 2. Development indicators of Mongolia’s transport industry

Indicators	2018		2019		2020		2021		2022	
	million tons	%	million tons	%	million tons	%	million tons	%	million tons	%
Amount of transported cargo,	67,8	100	68,9	100	60,2	100	49,2	100	60,8	100

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By railway	25,7	37,9	28,1	40,8	29,8	49,5	31,3	63,6	27,7	45,6
By road way	42	61,9	40,8	59,2	30,4	50,5	18	36,6	33,1	54,4
By air	5,7	8,4	5,7	8,3	2,7	4,5	19,4	39,4	12,9	21,2
Indicators	million people	%	million people	%	million people	%	million people	%	million people	%
Number of passengers	197,0	100	173,0	100	126,5	100	107,1	100	146,4	100
By rail	2,6	1,3	2,95	1,7	1,97	1,6	4,4	4,1	2,4	1,6
By road	193	98,0	168,4	97,3	124,1	98,1	106,5	99,4	143	97,7
By air	1,4	0,7	1,62	0,9	0,45	0,4	0,198	0,2	0,95	0,6

Source: Statistical Yearbook of the National Statistics Committee of Mongolia, 2018-2022.

Table 2 illustrates the impact of the Covid-19 pandemic on cargo and passenger transportation. In 2019, prior to the pandemic, 68.9 million tons of cargo were transported, decreasing to 60.2 million tons in 2022, marking an 11.7% decrease. Similarly, in 2019, 173 million passengers were transported (in double numbers), declining to 146.4 million passengers in 2022, representing a 15.3% decrease.

The effects of the Covid-19 pandemic persist, exacerbated by the ongoing conflict between Ukraine and Russia, further contributing to this decline. Before the pandemic, Mongolia's freight industry in 2019 comprised railway transport at 40.8%, roadway transport at 59.2%, and

air transport at 8.3%. By 2022, railway transport increased to 45.6%, roadway transport decreased to 54.4%, and air transport rose to 21.2%.

Regarding passenger transport, prior to the pandemic in 2019, railway transport accounted for 1.7%, roadway transport for 97.3%, and air transport for 0.9%. In 2022, railway transport slightly decreased to 1.6%, roadway transport remained dominant at 97.7%, and air transport decreased marginally to 0.6%.

The decrease in nationwide cargo and passenger transportation is attributed to various factors, including movement restrictions for citizens and vehicles across the country, city and regional curfews, as well as closures of border crossings.

The Actual Problems of the Transportation and Logistics Industry in Mongolia

The Mongolian and Russian joint venture company "Ulaanbaatar Railway", holds a significant role in both cargo and passenger transportation, contributing to Mongolia's socio-economic development.

It's evident that the capacity for railway transit linking Europe and China through Russia and Mongolia will be pivotal in fostering trade and economic collaboration, not just within China, Mongolia, and

Russia, but also across Eurasia. Each year, railway transit between Europe and China, passing through Mongolia, witnesses a notable increase in container transportation. However, several factors impact the competitiveness of Mongolia's railway transport.

1. The outdated road infrastructure not only limits railway movement but also leads to extensive wear and tear, compromising transportation safety. This situation poses adverse effects on cargo owners, while the central railway economic corridor exhibits limited cooperation with other transportation modes like air and automobiles.
2. The joint venture company, Ulaanbaatar Railway, faces financial constraints hindering the development of dual tracks or the construction and electrification of new railways, essential for upgrading the fundamental railway infrastructure.
3. Insufficient capacity at Sukhbaatar, Ulaanbaatar, and Zamin-Uud dry ports imposes limitations on Mongolia's export and import cargoes, creating bottlenecks in the transportation system. This shortage directly impacts the country's trade activities.
4. Ulaanbaatar, Darkhan, and Erdenet stations lack modern terminals for efficient cargo handling, hindering seamless transfer between trains and other types of vehicles. Meanwhile, the Russian conglomerate GC1520, comprising over 50 state-owned companies, has initiated research for upgrading and electrifying two tracks within the "Ulaanbaatar Railway." This ambitious project necessitates an

investment of \$10 billion.

5. The main highway corridor along the (AH-3) route suffers from outdated infrastructure, lacking essential amenities such as gas stations, driver rest areas, and car or technical repair stations.
6. The government-announced dry ports in Mongolia lack equipment and devices meeting the United Nations' international standards. These ports are unable to accommodate full-size trains on railways, lack container repair and refrigeration equipment, and have undeveloped warehouse facilities. Furthermore, they lack customs-guaranteed warehouses and essential amenities like banking services, insurance facilities, restaurants, and recreational areas. After the pandemic, there was a substantial increase in container cargo flow. This surge filled railway stations in Erlian and Zamin-Uud, the regional logistics center in Zamin-Uud, and Ulaanbaatar terminals with containers. Consequently, a significant number of empty containers could not be returned. This situation has placed Mongolian logistics companies at risk of facing substantial fines from shipping companies due to the extended retention of containers beyond the free usage period.

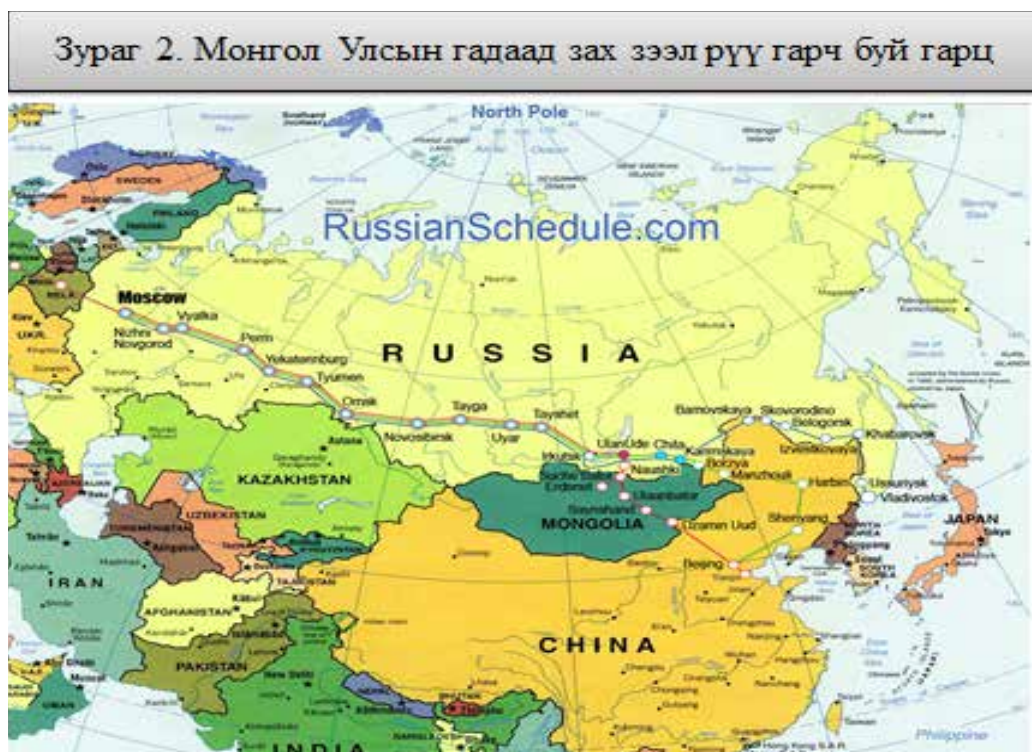
Even during the COVID-19 pandemic, Mongolia's export and import road transport has been continuously carried out on the route "Poland-Belarus-Russia-Mongolia" on the Europe-Mongolia route. "Sukhbaatar" and "Zamin-Uud" border ports have played an important role in transit and import cargo transportation.

The Practical Suggestions for Establishing the Economic Corridor of China, Mongolia and Russia

Since 2015, the establishment of the Russian, Chinese, and Mongolian economic corridor has outlined 10 cooperation mechanisms. However, the initiation of these mechanisms has been delayed, prompting the need to invigorate their activities. It is imperative to regularize tripartite meetings, elucidate their outcomes, and synchronize the legal frameworks among the three countries. Transport and logistics projects within Mongolia have been funded

by the Mongolian budget, ADB, the European Bank for Reconstruction and Development, and concessional loans from the Chinese government. Notably, primary contractors involved are Chinese companies, with Mongolian companies largely participating as subcontractors. Notably absent in funding these projects are contributions from the China Silk Road Fund or the Asian Infrastructure Investment Bank.

Figure 1. Railway transit route between Europe and China through territories Russia and Mongolia



In essence, there hasn't been a holistic vision encompassing agriculture, business,

trade, services, and collaborations between urban and rural areas across the three

countries along this corridor. To resolve these issues, it's crucial to assign specific roles to ministries, organizations, and research institutes from Russia, Mongolia, and China. Coordinating their policies and activities is vital for the effective establishment and development of the corridor. Prioritizing the construction of the economic corridor among Russia, Mongolia, and China necessitates conducting a comprehensive situational analysis. This analysis should cover past

and current conditions, short-term and long-term development prospects for each country. Subsequently, a medium and long-term integrated program and plan need to be developed. This plan should delineate the sequence and stages of the 32 projects and programs within the corridor. It should also specify required investments, financial resources, and highlight the strategic importance of the corridor.

Figure 2. Schematic map of the economic corridor of China, Mongolia and Russia



Source: The Schematic map, created by the researcher, based on his the research results

It's notable that Russia, Mongolia, and China exhibit substantial differences in economic power, scientific and technological potential, industrial

development, workforce skills, and the availability of financial and natural resources.

The government organizations responsible for managing the economic corridor across the three countries should be affiliated with research institutes. These organizations must be tasked with implementing the following functions:

- Prepare, discuss, and approve agenda items for the annual meeting of the heads of the three countries and establish cooperation directions with other government institutions.
- Align policy documents for the development of the economic corridors among the three countries with international agreements and conventions, including the review and renewal of previously established bilateral and multilateral agreements.
- Coordinate national economic development policy mechanisms-macroeconomic, sectoral, trans-sectoral, regional, and trans-regional-with the development policies of other countries. Determine strategies to facilitate cross-border trade and investment.
- Conduct detailed assessments of the political, social, economic, environmental, and geographical aspects of the three countries to ascertain the feasibility and justification of the economic corridor.
- Harmonize national economic development policies-macroeconomic, sectoral, inter-sectoral, regional, and local-with the development policies of other countries, identifying avenues for enhancing cross-border trade and

investment.

- Develop the technical and economic foundations of economic corridor projects. Prepare technical designs, budgets, assess required finances, investments, technical, technological, and labor needs for corridor construction.
- Evaluate and analyze the resources (financial, investment, labor force, technology, raw materials, management, innovation, etc.) in the three countries. Identify their strengths, weaknesses, and potential for complementarity.
- Establish national-level structures for managing and coordinating economic corridor projects, including monitoring, evaluation, and reporting mechanisms.
- Provide policy recommendations to the governments of Russia, Mongolia, and China for the implementation of the economic corridor, among other duties.

According to this map, there is a concern that prolonged participation in this global project might lead to the potential loss of economic independence and pose risks to the participating countries' national security. Therefore, for both larger and smaller nations engaged in this expansive project, it is crucial to prioritize their national interests before aligning with the interests of other participating countries.

Primarily, there is a need to enhance the penetration capacity of the central transit corridor connecting Russia and China, which traverses Mongolia's territory. This involves updating the technology used in the Ulaanbaatar railway and increasing the

capabilities of border ports like Naushki-Sukhbaatar and Zamin-Uud-Erlian. These developments are pivotal for Mongolia's economy. Given Mongolia's limited experience in railway construction and

financial constraints, the nation is actively seeking financial and technical assistance from international financial organizations to contribute effectively to the construction of these economic corridors.

Conclusion

In its "New Recovery Policy", the Government of Mongolia has outlined goals aimed at developing both the hard and soft infrastructure across all modes of transportation and border ports. These objectives include enhancing their capacity, establishing the groundwork for mixed transport, and fostering an increase in both domestic and transit transportation.

Although the decision to establish the economic corridor involving Mongolia, Russia, and China has been made at the highest government level of these three countries, the roles of mid-level and lower-level government institutions remain unclear. There is a lack of mid-term and long-term joint cooperation programs, and the essential economic, financial, customs, budget, tax, and investment mechanisms have not been defined. Additionally, research on the need and location of

production resources in the three countries has not commenced.

The primary concern revolves around the lack of clarity regarding the political and economic benefits arising from the establishment of this corridor. There's a pressing need for regularizing agreements and intensifying tripartite cooperation, aligning legal documents among the three countries, and outlining the requisite projects and measures for establishing the corridor. Additionally, the subsequent stages and coordination among the government ministries and organizations responsible for implementing these measures across the three countries lack clarity and efficiency. Hence, it's crucial to translate the solutions devised at the highest governmental level of the three countries into actionable measures at the middle and lower levels.

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