



# Mongolia between Russia and China

By Sergey Radchenko

Few places seem to matter less for the West than Mongolia. Policy makers in Ulaanbaatar have tried hard over the years to develop their “third neighbour” policy in a bid to escape the hard geographic reality of being perpetually sandwiched between two great powers, China and Russia. However, there are few buyers in the West for the role of Mongolia’s “overseas neighbour.” The Bush Administration at least kept an eye on this sparsely populated expanse of territory the size of Western Europe (Bush even turned up in Mongolia in 2005 for an unprecedented, if short, visit). Under Obama, the country has simply disappeared off Washington’s radar. Secretary of State Hillary Clinton has not even looked that way on any one of her frequent Asian blitz-tours. And who cares? After all, Mongolia is basically peripheral to Western political and economic interests. Even BBC World News, in a recent online piece, confused the country with China-administered Inner Mongolia.

Nevertheless, it would be a mistake in my view to ignore what happens in this part of the world. For an informed observer, Mongolia represents an excellent case study of cooperation and conflict in the Sino-Russian relationship. China and Russia are now on excellent terms. They are the co-sponsors of the Shanghai Cooperation Organization (currently in session in Tashkent) – which, for all of the (sometimes warranted) criticism to the effect that it is nothing but a toothless dictators’ club, has proved to be more robust than its many critics were willing to believe at the outset. Russia and China have joined India and Brazil in the amorphous force dubbed “BRIC,” to an uncertain effect but with great ambition to change the financial architecture of the world in their favour. Political relations have gone from good to intimate, as even Russia’s ruling party, United Russia, has expressed interest in expanding party-to-party ties with the Chinese Communists in order to learn from former “little brothers” on how to stay in power. Economic ties have grown by leaps and bounds as Beijing eyes Russia’s resources to fuel its expanding economy.

Yet in Mongolia, Russia and China have been competing for power and influence. Mongolia, once a Soviet “satellite,” was practically abandoned by the Russians in the 1990s. Improving Sino-Russian relations and post-Soviet economic woes undercut Moscow’s willingness and ability to maintain the degree of influence that Mongolia Russia had enjoyed for decades. Russia never quit Mongolia entirely, though. For example, the strategically important Mongolian railroad is a joint enterprise (Moscow has

owned 50% of it since 1949). Russia has maintained a 49% stake in the massive Erdenet copper processing complex in Northern Mongolia. Moreover, in the last few years, the Russians have attempted a come-back. Putin famously cancelled Mongolia’s outstanding Soviet-era debt (it was a *priori* not repayable and, in any case, could not be determined with certainty because the Soviet Union, for all of its economic aid to Mongolia, also plundered its resources).

Last year Putin and President Dmitrii Medvedev visited Ulaanbaatar and brought a promise of massive investments backed by what appeared, until the latest economic crisis, like growing Russian economic might. The same year Russia and Mongolia concluded agreements for cooperation in the extraction of uranium, while the Russians announced plans to modernise the Mongolian railroad and extend new rail links to mineral deposits, including one of the world’s largest coal deposits at Tavan Tolgoi in Southern Gobi. Russia used its leverage to force the Mongolians to give up a US grant of \$188 million (from the Millennium Challenge Account), also intended for the reconstruction of the railroad.

The Kremlin claims its interests in Mongolia are underpinned by economic motives; the country’s copper and coal deposits certainly have a potential to excite appetite. Yet the

Russians have also tried to use their economic leverage to restore at least a semblance of traditional influence in Mongolia. For example, Putin, during his visit to Ulaanbaatar, attempted to patronise then-President Nambaryn Enkhbayar of the Mongolian People’s Revolutionary Party ahead of the Presidential elections. Putin’s clout did not extend that far, nor did his foresight, because Enkhbayar lost out to a candidate from the opposition, Western-educated Tsakhiagiin Elbegdorj. In August 2009 Medvedev recalled the spirit of past “fraternal” cooperation when he turned up to celebrate the 70th anniversary of the Soviet-Mongolian victory against the Japanese at Khalkin Gol.

Russia’s come-back in Mongolia has been characteristically clumsy; there is too much weight-throwing in a way that is bound to offend Mongolian sensibilities. The question of

natural resources ownership and extraction is highly politicised; negotiations with the Australian Rio Tinto and Canada-based Ivanhoe Mines concerning the huge copper deposit at Oyu Tolgoi became probably the hottest political issue in Mongolia in recent years, especially during the attempted “colour revolution” in Mongolia in July 2008. An investment agreement for Oyu Tolgoi was signed recently but it was only possible because Rio Tinto is a Western (not a Russian or a Chinese) firm. The news of a possible buy-out of Rio Tinto by China was met with apprehension in Ulaanbaatar (this did not come to pass). It was therefore quite presumptuous for the Kremlin to think that it could monopolise Tavan Tolgoi.

Mongolia’s economic relations with China blossomed in the meantime, and the southern neighbour is now by far Mongolia’s largest trading partner. Even so, China’s economic penetration of Mongolia is strongly opposed by the public; anti-Chinese pogroms are not unheard of; and Mongolian nationalism has a pronounced anti-



Indian Prime Minister Dr. Manmohan Singh with the President of Mongolia, Mr. Tsakhiagiin Elbegdorj and his wife, during the ceremonial reception at Rashtrapati Bhavan in New Delhi on September 14, 2009.

Photo by M Asokan

Chinese streak. Certain Chinese business practices (for example, employment of Chinese immigrant workers instead of Mongolians) have raised local ire, as they have in other parts of the world, where the Chinese resort to similar practices. Although the Mongolian government has worked hard to play up friendship with Beijing, there is a very real apprehension in Ulaanbaatar that Chinese economic penetration could pave the way to political domination. This concern has become more pronounced recently because Beijing is becoming more interested in major resource development projects, rather than the service sector and construction, where the Chinese presence had been strongly felt up to now. For example, China's Shenhua Group is another competitor for Tavan Tolgoi – one of the few economic projects where China and Russia are directly at odds.

To alleviate Mongolian fear of China, Beijing has resorted to cultural diplomacy. A recent visit by Prime Minister Wen Jiabao to Ulaanbaatar was followed by the conclusion of student exchange agreements (China will train 2000 Mongolian students free of charge; the Russians had offered a much lower quote of 230). Beijing has agreed to pay for the construction of a "Beijing street" in central Ulaanbaatar. China has sponsored a news portal in Mongolia (solonggo.net), with pro-Chinese news reporting in excellent Mongolian. China also announced its readiness to improve infrastructure in Mongolia, including railroad

facilities, and extended special loans to this and other ends totaling USD \$800 million. Another \$50 million was given out in gratis aid in a move unmatched by Russia. It is an open question whether this outreach will help China acquire stakes in key resource projects, including Tavan Tolgoi. For now, it seems that Ulaanbaatar is moving towards developing this deposit primarily through domestic efforts. In the sense that most of copper and coal are in any case intended for the Chinese market, China is by default a winner in the economic competition in Mongolia; its economic power in the country is likely to grow in the coming years no matter what.

It remains to be seen how China and Russia divide their economic interests in Mongolia. In spite of the proclaimed affinity of interests in Moscow and Beijing, it seems scarcely in doubt that the Kremlin will want, where possible, to undercut the Chinese in Mongolia, as well as in other countries (and former Soviet republics) across Central Asia. The Chinese will try to do the same to their comrades-in-arms. To be sure, anti-Chinese sentiments inform public opinion across the region, and this may help the Russians to maintain a degree of influence that Chinese money cannot buy. Mongolia is a particularly interesting case, because public opinion here actually matters. There is a real public debate

concerning the government's performance, and the press and the Internet are basically not censored (for example, after Wen Jiabao's visit, anti-Chinese sentiments seemed to predominate in the blogs – this tends to happen every time any news is published concerning Sino-Mongolian relations). In this geopolitical game, Mongolia has more freedom of maneuver than at any time in its turbulent history since independence from China. ■

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