

# **Mongolia–China–Russia Economic Corridor Infrastructure Cooperation**

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On 4 January 2015 China's Foreign Minister Wang Yi had a meeting with the Minister of Foreign Affairs of Mongolia Mr. L. Purevsuren, and expressed that he had agreed on the proposal of establishing the "Mongolia–China–Russia Economic Corridor".

Even though there are certain difficulties regarding the countries' capabilities for infrastructure investment, differences in rail gauge and railway capacity, and export structures, each country is working within their own policy framework towards establishing an economic corridor among the three countries. This paper attempts to explain the current situation and further challenges for such initiatives on infrastructure cooperation.

## **1. The Countries' Current Infrastructure Environments and Their Future Goals**

The policy and planning framework which each side must work out in order to establish an economic corridor among the three countries is described as follows.

The "Millennium Development Goals-based Comprehensive National Development Strategy of Mongolia" stipulated that energy exports and regional transportation services shall be developed at an entirely new level, which will connect the two neighboring countries, and become a transportation "bridge" between Asia and Europe. In addition, it underlined support for private sector participation in the infrastructure sector. The purpose of the policy for developing the rail transportation system pursued by the Mongolian government is intended to become independent of a single market for exporting mining products. Thus, work is underway to build a new rail route to Russia and China.

In the project called "The Silk Road Economic Belt and 21st Century Maritime Silk Road", which was developed in March 2015 by the National Development and Reform Commission of China, the Ministry of Foreign Affairs and the Ministry of Commerce of China, it is stated that from the Chinese side there are roads and railroads to the north of Beijing, Tianjin, Hebei Province, the Inner Mongolia Autonomous Region, and the three Northeast provinces, and the border crossing-points with Mongolia and Russia are included in the economic corridor of the three countries. It requires conducting technological cooperation with Russia in accordance with the projects named the "Northeast Revitalization Plan" and "The Development of Western China". Also the "Program of Cooperation between the Far Eastern and Eastern Siberian Regions of the Russian Federation and the Northeastern Region of the People's Republic of China (2009–2018)" was released in 2009. This program reflects China–Russia cooperation on

infrastructure, transportation, the capacities of border checkpoints, investment, labor, technological parks and the tourism sector, with some projects having coordination among the regions.

The "Eurasian Economic Zones" forum encourages foreign investors to invest into the regions of Russia's Far East and Siberia where the minerals, natural gas and coal is exported to China and Northeast China. The Far East and Siberia is a huge market for Chinese investment, technology and labor. In 2007, the "Federal Target Program on Economic and Social Development of the Far East and Zabaykalye up to 2013", and in 2009, the "Strategy for the Socio-Economic Development of the Far East, the Republic of Buryatia, Zabaykalsk Krai and Irkutsk Oblast for the Period up to 2025" were adopted. The Development Fund Far East and Baikal Region and the Ministry for the Development of the Russian Far East were also established.

Russian Railways has developed the "Strategy for Developing Rail Transport in the Russian Federation up to 2030", which aims at using the natural resources of the Far East and Zabaykalye regions to increase the volume of domestic transportation important for socioeconomic development; in order to increase transport to Mongolia, China, the DPRK, and Japan, they are working on technological renovation of the Siberian and Baikal–Amur railway routes.

Russia, on the one hand, is trying to escape from the effects of the economic sanctions of European countries by using domestic resources, and is trying to strengthen its relations with Asian countries on the other. Thus, foreign investment into the Far East and Siberia's natural resources has a very important impact.

First of all we need to understand what an economic corridor is. An economic corridor develops through the following steps.

- Investment in the infrastructure of roads and railroads
- In order to implement regional development plans, there is a need to support rural development and urbanization, to improve infrastructure conditions, to support heavy industries and to improve the investment environment for small and medium-sized enterprises; and also there is a need to increase investment in tourism.
- Facilitation of trade and support for cross-border trade, services and tourism.
- A true economic corridor will be established when government policy coincides with regional development plans.

## 2. “Mongolia–China–Russia Economic Corridor” Infrastructure Cooperation and Regional Economic Development

In 2001, Mongolia initiated the “Millennium Road” project with the purpose of constructing roads and railroads, but due to lack of foreign investment and labor, its pace of implementation is relatively slow. In 2013, the Mongolian government proposed a new initiative called “The Land Road” for constructing 997 km of highway between China and Russia, 1,100 km of electrified rail lines, and an oil and gas pipeline across Mongolia, that altogether will cost US\$50 billion. There has been successive government support for this initiative and planning working in conjunction with the Chinese initiative of “One Belt, One Road”. Although Mongolia is landlocked, it is the shortest route linking China with Russia.

The prospects for the economic cooperation of the Northeast Asian region within the framework of the Mongolia–China–Russia economic corridor look very weak. For more than 20 years economic cooperation within the Northeast Asian region has remained very low. Trade among the Northeast Asian countries accounts for only 20% of the total foreign trade of the regional countries. As of 2013, China was in third place globally with investment of US\$107.8 billion, but unfortunately only 2% of this amount was invested in the Northeast Asian region. Also, cooperation between the countries within the region looks unbalanced overall. For example, economic cooperation among China, Japan and the ROK is relatively great. However, cooperation among Mongolia, Russia and the DPRK and their cooperation with China, Japan and the ROK is still very weak and stunted, and limited to bilateral cooperation. In other words, regional economic integration and multilateral economic cooperation has not developed within the region.

In the policy document titled “State Policy on Railway Transportation” which was approved by the Mongolian Parliament in 2010, it is stated that upon building approximately 5,683.5 km of new railway lines in Mongolia, the volume of export cargo can be increased by up to 50 million tonnes per year. The Railway Deputy Chairman Igor Dombrovskii has stated that “the shortest route to Asia from Europe to transport passengers and goods is through the territory of Mongolia. Mongolia and Russia are working together to build this infrastructure and the rates on this route have not been increased since 2006.

As Professor Zhang Sujie from Heilongjiang Province specified, “Currently, there are two routes in the Mongolia–China–Russia economic corridor: one is 1,963 km long from Ulaanbaatar to the Port of Tianjin passing through Erlian (Erenhot); the other is 2,264 km long from Choibalsan to the Port of Dalian through Manzhouli. But the planned route from the eastern part of Mongolia, Choibalsan to Jinzhou, which is 1,100 km long, is the shortest way”.

Zhang Guobao, Vice chairman of the National Development and Reform Commission of China, said that there is great opportunity for goods transportation networks between China and Russia and China and Mongolia, connecting the two continents of Europe and Asia, but unfortunately there are no goods transport relations. We can

see this on the Manzhouli and Suifenhe railway transport, for example. In addition to their huge natural resources, the Baikal area and the Asian parts of Russia’s eastern regions are a region where much rail transport enters sea ports in the Far East. The level of infrastructure in this region is the least developed in Russia. Recently, import and transit of rail transport has been constantly increasing in the Far East and Baikal regions. Russian Railways has worked out its development strategy up to 2030, wherein it was stipulated that: they increase the volume of domestic transportation by utilizing the natural resources of the Far East and Baikal regions up to 2020, important for the socioeconomic development of the regions; and they upgrade the technology of the Siberian and Baikal–Amur railway routes aiming at meeting the transit cargo demands of Mongolia, China, the DPRK and Japan, develop new transportation routes, improve railway infrastructure, build railway crossings, establish the electricity supply of the railway zone, rebuild depots and stations, and modernize technology. It was planned to improve the Baikal–Amur railway route and increase its capacity for transit transportation.

As regards Mongolia, the Mongolian National Railway Company’s 1,520 mm-gauge network consists of two lines with a total length of 1,815 km. During the past 10 years export volumes of iron ore and copper concentrate to China have increased by more than 400%. The transit transportation had been increasing until the early 2000s, but it has decreased recently due to the transportation of crude oil and petroleum products from Russia to China through Manzhouli. The cargo flow is not well balanced as most of the transits run from north to south only. In 2014, out of the 20.9 million tonnes of total freight, imports and exports were 22% and 59% respectively, while 19% was transit cargo. By cargo, within the total, 31% was coal, 22.7% iron ore, and 12% construction materials and other products.

Currently, the Mongolian LLC “Energy Resources”, the Chinese state-owned China Shenhua Energy Company and the Japanese Sumitomo Corporation have entered into a consortium to bid for a project on the exploitation of the Tavan Tolgoi coking coal deposit, wherein construction of a railroad between Tavan Tolgoi and Gashuunsukhait will be implemented by the China Shenhua Energy Company, and Sumitomo is involved being from a third country, which would guarantee sales to other markets.

On 21 March 2014 the Mongolian government made a decision to increase coal exports, and within the framework of improving foreign trade, to build a narrow-gauge railroad which would connect Gashuunsukhait and the Gantsmod (Ganq Mod) border port of entry in China. They gave approval to the “Erdenes Tavan Tolgoi” Joint Stock Company to implement the “Gashuunsukhait railway” project in cooperation with other related entities. The feasibility study and outline of constructing the 267 km-long railway from Tavan Tolgoi coal deposit southwards is underway.

It is expected that Mongolian export shipments by railway will increase with further development of the country’s mining sector. Within the framework of “the new railway” project, the government is planning to build and finance a 1,800 km-long railroad in two stages which will

link the mineral deposit sites in the Mongolian desert steppe with Russia via Choibalsan and Sainshand.

Studies by international financial institutions have indicated that the eastern and northeastern parts of China are the key regions for the coking coal market. A third of China's power plants, two-sevenths of oil production and one-eighth of steel manufacturing are located in that region. China's policies, developed by central and local governments since 2014 on improvements of the Northeast region, exactly match the Mongolia–China–Russia economic corridor framework. If the Mongolia–China–Russia economic corridor is built, then Mongolia's cargo can reach Vladivostok to the east via China's three northeastern provinces, and reach Europe to the west via Chita. Recently, there are 5,090 containers of LCDs, air conditioners, bicycles and other daily goods being shipped by the Tianjin–Manzhouli–Europe route with a value of 8.5 billion Chinese yuan, and 1,849 containers of the same products being shipped by the Jinzhou–Manzhouli–Europe route with a value of 12.5 billion Chinese yuan.

### **3.Challenges for Mongolia–China–Russia Economic Corridor Infrastructure Cooperation**

Even though it has been agreed to establish an economic corridor, there are issues awaiting solutions. In particular, it is necessary to coordinate the activities of the three sides by providing integrated coordination, and to create the legal environment and institutional regulations. Also, the railway capacities are different and the process of introducing new technologies is very slow. It is necessary to connect the newly discovered natural resources and deposits with the existing central railway networks. Mongolia, China and Russia need to discuss and resolve the railway tariff and other related issues.

During the Mongolian–Chinese–Russian tripartite consultation meeting on rail transportation, which was held in Ulaanbaatar in April 2015, the parties approved an increase in rail freight and the conducting of feasibility studies to establish a Mongolian–Russian–Chinese joint railway transportation and logistics company, and an increase in the capacity of the “Ulan Ude–Naushki–Sukhbaatar–Zamyn Uud–Erlan (Erenhot)–Jining” railway route. Also, at the leaders' meeting in Ufa, Russia, the three parties highlighted several issues, such as: launching a Mongolian, Russian and Chinese economic cooperation program to build corridors which will integrate the initiatives of the “Eurasian Economic Union” proposed by the Russian Federation, the “Silk Road Economic Belt” proposed by China, and the “Taliin Zam [Steppe Road]” proposed by Mongolia; studying financial and technical cooperation in the “Ulaanbaatar railway modernization” project; and supporting investment in infrastructure projects.

After the three parties agreed to cooperate on infrastructure, researchers have also been expressing their views. For example, Li Xin, a researcher at the Shanghai Institutes for International Studies, suggests that among the Chinese, Mongolian, Russian economic corridors, the most important route is Chita–Manzhouli–Harbin–Suifenhe–Vladivostok, and this route will link to the Trans-Siberian Railway. This is the main route which will connect

Heilongjiang Province to Europe. China Railway Corporation and Russian Railways have established a joint mechanism, and there are already freight trains going on a China–Russia–Europe route.

The second route is Chita–Ulaanbaatar–Choibalsan–Khoot–Bichigt–Zuun Khatavch (Dong Ujimqin)–Changchun–Jilin–Hunchun–Zarubino, which will connect the six Northeast Asian countries.

The third route is Chita–Ulaanbaatar–Erlan (Erenhot)–Beijing–Tianjin, which needs improvement. Among the economic corridors, the first route from Ulaanbaatar via Erlan (Erenhot) to Tianjin is about 1,963 km long, while the second route, which is through Choibalsan, Dornod Province, to Jinzhou port is 1,100 km long and the shortest route.

As mentioned earlier, the other route is the new railway infrastructure that links Tavan Tolgoi deposit with the railway networks. Mongolian Railway Company Chairman L. Purevbaatar said that a 620-km railway connecting to the Ereentsav–Choibalsan–Khoot–Bichigt route will be built and this route will become the main transit route of the Russian–Mongolian–Chinese railroad. Gantsmod (Ganq Mod) border port of entry is just 235 km away from the Chinese main railway network and the distance from there to the Port of Tianjin is around 1,400 km and to the Port of Qinhuangdao 1,655 km. The distance from Tavan Tolgoi to Gantsmod entry port is around 270 km. Thus, this route is about 1,000 km shorter than the Bichigt–Nomrog route. Another option is to build a 456-km railway from Tavan Tolgoi to Sainshand. Then it will be possible to travel by the route Sainshand–Zamyn Uud–Jining/330 km/–Qinhuangdao/1,300 km/–Tianjin/700 km/. The Choibalsan–Khoot–Bichigt route will become the main international railway of the three countries.

Each country's interest in using railways is to transport products to niche markets by low cost in the shortest time possible. It is in Mongolia's interest that in building the economic corridors between the three countries Mongolia needs to use its existing railways as much as possible to lower the associated investment costs.

Infrastructure cooperation between the three countries needs a variety of investments. At the Asia–Europe Connectivity and Production meeting held on 27 May 2015 in Chongqing, China, the Vice Premier of China's State Council, Zhang Gaoli, stated that China will invest 890 billion yuan to build six economic corridors within the framework of the “One Belt, One Road” initiative. To promote and finance the “Silk Road” initiative, participation of the AIIB, the Silk Road Fund, the SCO Development Bank, the BRICS Bank, other international financial institutions, and the private sector are possible. In particular, the AIIB will finance specific infrastructure projects. Wei Jianguo, a Deputy Director of the Center for China International Economic Relations, said that the “One Belt, One Road” initiative will actively promote the involvement of the private sector and will use public–private partnerships.

In general, there are many ways to invest in the infrastructure sector and in practice it usually employs concessional contracts. Due to lack of financing of the Mongolian railway sector, the Mongolian government

approved private-sector building of some parts of the railway lines, and others under concessional contracts. If it is considered that the first and second stages of new railway construction in Mongolia would cost at least US\$2 million per kilometer, then the total investment would equal US\$5 billion. According to the railway policy adopted by the Mongolian Parliament, more than 51% of the new railway's basic infrastructure must be under government ownership. Also it would be risky to allow 100% private ownership in the basic infrastructure of the railway, as a railway built by one company's funding may be inaccessible to other companies or charge more.

The other challenge of building the Mongolia, China and Russia economic corridor infrastructure is their railway gauge differences. The Russian railway gauge is 1,520 mm and the Chinese gauge is 1,435 mm, so transshipment is inevitable at the borders between China and Mongolia and between Russia and Europe. According to an agreement of the Organisation for Co-operation between Railways, if transshipment is needed, the recipient side must be responsible for it. The current cost of transshipment is a uniform rate of 10 Swiss francs or US\$3–5. Additionally, in consideration of the environmental pollution caused during the transshipment of coal and the loss of time, the Policy on Rail Transport, which was approved by the Mongolian Parliament, stipulates that the new railway track gauge for Tavan Tolgoi–Gashuunsukhait and Khoot–Bichigt was agreed to be 1,435 mm.

Currently, for cooperation among Russia, China and Mongolia in particular, the China–Russia and China–Mongolia trade structures cannot be changed in the short term. Bilateral trade between Mongolia and China and Russia and China still has an “exchange of raw materials for end products” pattern. Therefore, there needs to be an increase in investment into developing the manufacturing sector and improving trade structures. Moreover, differences in the economic development of the three countries are another challenge to cooperation. According to the World Bank, in 2014, China's economy was US\$9,240 billion with a per-capita GDP of US\$6,807, the Russian economy was US\$ 2.1 trillion with a per-capita GDP of US\$14,612, while the Mongolian economy was US\$11.52 billion and GDP per capita was US\$4,056. Different levels of economic development, structure and policies are difficult to fit under one umbrella. Mongolia imports electricity, daily consumer goods, clothing, food, fruit, vegetables, construction materials and oil products from China, with the exception of international passenger transport. However, Mongolia exports untreated minerals, leather, wool, cashmere, and Russia exports forest products, and minerals to China. Mongolia and Russia are rivals in terms of mining-originating exports to China. Russia is interested in diversifying its export structure with machinery, agricultural products, and meat and dairy products. Thus, there is a need to consider these specifics of

the economic development and trade structure of the three countries and find ways of mutually beneficial cooperation in line with all the parties' interests.

#### 4. Conclusion

In order to establish an economic corridor, we need to develop infrastructure connecting the countries, especially railroad transportation. Therefore, creation of a joint working mechanism is necessary for the effective operation of the proposed economic corridor that crosses Russia, China and Mongolia. In this way we can solve together the urgent issues and facilitate cooperation in a cost-effective way.

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