

Eurasian Geostrategies: A Chinese-Russian Condominium Over Eurasia, and the Involvement of Mongolia

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INTRODUCTION

The countries of Eurasia have made remarkable progress since the collapse of the Soviet Union thirty years ago. The transition from communism to market-based economies during the 1990s had been a severely difficult period. As the economies of Eurasian countries are growing rapidly, the continent will play a leading role in world politics, economics, trade and finance. With these developments, Eurasian countries have been pursuing active foreign policies in recent years. These countries seek to expand their markets by creating a unified network of transportation and infrastructure. This is illustrated by the proliferation of Free Trade Agreements, various regional initiatives and megaprojects of roads, transportation networks and energy utilities. It is apparent that the economies in Eurasia will become open and diversified and that their competitiveness will be improved greatly by implementing those initiatives and projects. At the same time, there is competition between countries to take advantage of this geo-strategically important region and to secure their resources and energy needs to sustain their economic growth.

Following the Cold War, Eurasia started changing in multiple ways. Parliaments and political parties have been created and elections held. Economic reforms have been initiated, a degree of macroeconomic stabilisation has been achieved and regional economies have attracted foreign investments. The region has been integrated into numerous international institutions, and a range of new non-governmental organisations and small businesses have sprung up in place of outdated and inadequate government entities and antiquated, loss-making enterprises. There are now, overall, good prospects for this region and its population. It has recently been one of the most dynamic regions of the world in terms of economic growth, with an average annual per capita income growth rate of about 4-5%

over the last four years,¹ even as recession gripped much of the rest of the world. Prospects for continued economic growth in the region also remain strong.

In order to understand the nature of this shift, it is important to identify how China and Russia look at Eurasia and the policy approaches and initiatives that China and Russia have taken to strengthen their influence. Moreover, this article sheds light on the involvement of Mongolia in Eurasia, and explores its opportunities as a country wedged between China and Russia.

1. CHANGING GEOPOLITICS OF EURASIA

Eurasia is a region rich in natural resources, manpower and economic resources. Its abundance of petroleum, gas, rare elements and non-ferrous metals will become a source for fulfilling the development of global economic and technological advances. In addition, Eurasia's geostrategic location has become a bridge for connecting the two massive economies that are Europe and Asia. Infrastructure, transportation and mining are the main factors of economic cooperation between countries in these regions. Multilateral banks, including the Asian Infrastructure Investment Bank (AIIB), the Asian Development Bank (ADB), the World Bank, and the Eurasian Development Bank (EDB), as well as the newly initiated "Silk Road Fund" will also remain major financers of Eurasia-related projects. The "Silk Road Fund" is a state-owned investment fund of the Chinese government, created to foster increased investment in countries along the "Belt and Road", an economic development initiative primarily covering Eurasia. The Chinese government pledged US\$40 billion for the creation of the investment fund established on 29 December 2014.²

Major consumers and suppliers of energy are located in the Eurasian region. Therefore, Eurasian countries agreed on the significance of forming a cooperative market for energy and petroleum. Transportation and infrastructure are the main fields to concentrate on for achieving a cooperative market for energy and petroleum. Despite this, there is also an opportunity to become a leading agricultural source, by producing organic products which could yield additional profits in the future. Therefore, through the process of establishing industrial parks and clusters in these fields, the Eurasian region would benefit from opening a common market.

¹ "The Economic Outlook for Eurasia: From Transition to Sustained Growth and Integration?", <https://www.brookings.edu/research/the-economic-outlook-for-eurasia-from-transition-to-sustained-growth-and-integration/>.

² "Silk Road Fund's 1st investment makes China's words into practice", Xinhua News Agency, 21 April 2015.

Historically, a number of empires sought to unite the vast territory in Eurasia, from ancient times to the 20th century. However, at no point in history was Eurasia integrated as a political and cultural entity, and it is impossible to predict whether we will be able to witness such a development in the near future. It does seem clear, however, that the continent is becoming more connected than ever, by virtue of significant advancements in communications and infrastructure development, though politics remain shaped by great-power competition. As economic, political and military great powers, Russia and China have been playing a decisive role in this geopolitical space. Russia maintained an empire in Eurasia for 400 years, starting from the 16th century, by expanding its territory to Siberia, the Far East and Central Asia.³

As mentioned above, the continent is becoming more connected due to the construction of a regional network of transportation, communications, oil, natural gas and fibre-optic cables under the land and sea. As Eurasia is being integrated with developments in maritime transport, it has become a part of a new maritime route along the North Pole which has become navigable due to ice floes diminishing as a result of climate change.

With the aim of integrating and developing a vast territory in Europe and Asia, both Russia and China seek to implement various projects, showing their respective ambitions to become a superpower on land and sea. While Russia attempts to protect its domestic market from the influence of the European Union, China seeks to proclaim its dominance in this region. Two large-scale projects initiated by Russian President Vladimir Putin and Chinese President Xi Jinping illustrate that their respective ambitions are evident in the Eurasia region. Russia established the Eurasian Economic Union in 2011, while China launched the “Belt and Road Initiative” or “New Silk Road” in 2013.

2. EURASIAN ECONOMIC UNION LED BY RUSSIA – STRENGTHENING ITS INFLUENCE IN EURASIA

Recent articles and publications reveal the Russian approach to Eurasian geopolitics. In general, the Russian policy approach towards international relations can be summarised as follows: 1) it is different between the West and East; 2) it is a historical approach to restore its status and identity as a great power, even if Russian

³ Michelle Sinness, “Empire of the Steppe: Russia’s Colonial Experience on the Eurasian Frontier”, <https://www.international.ucla.edu/euro/article/139315>.

territory and influence have diminished; 3) it places more importance on security than economy, as Russia seeks to turn the post-Soviet area into a “Security Belt”, and desires to restore its status as a “great power” through tactical diplomacy and military power.

Strengthening relations with China and Central Asian countries plays an important role in the Russian policy towards Eurasia, while the Eurasian Economic Union (EEU) and the Collective Security Treaty Organisation (CSTO), consisting of the five members of the EEU in addition to Tajikistan, are important policy mechanisms for Russia in relation to the region. In May 2018, the EEU and China established a free trade agreement which entered into force in 2019. Within the framework of the agreement, the two sides agreed to cooperate in the areas of agriculture, transport, finance and energy.

The treaty signed by the EEU member countries entered into force in January 2015. Currently, the EEU consists of five member states, namely Russia, Kazakhstan, Belarus, Kyrgyzstan and Armenia. Russia alone produces around 90 percent of the GDP generated by the EEU countries and has 20 percent of voting rights. As of today, the EEU's exports to China have increased by 40 percent within a year and bilateral trade between the two reached a total of US\$100 billion. The following table indicates that the EEU's share of the world economy is relatively low in comparison with other economic mechanisms.⁴

Table 1. EEU's Share of the World Economy.

	Countries/markets	Trade /billion US\$, 2017/	Share of the world economy
1	US	3.703	13.1%
2	EU	3.686	13.0%
3	China	3.454	12.2%
4	Japan	1.252	4.0%
5	MERCOSUR	902	3.2%
6	India	792	2.8%
7	Canada	617	2.2%
8	EEU	509	1.8%
9	South Korea	405	1.4%
10	Turkey	341	1.2%
11	South Africa	149	0.5%

⁴ “Die Eurasische Wirtschaftsunion. Analyse aus einer handelspolitischen Perspektive”, Zweite Fassung: 8. September 2017.

Furthermore, the EEU faces a number of challenges. For example, as pointed out by Mr. Dmitry Pankin, then-Chairman of the Management Board at the Eurasian Development Bank, *problematic issues relate to non-tariff barriers, technical coordination, energy, pharmaceutical market and internal regulations.*

His argument seems to be further substantiated by the following developments:

- There are internal challenges within the EEU: ongoing trade disputes between Kazakhstan and Kyrgyzstan and between Russia and Belarus.
- Many challenges are evidently related to the implementation of an agreement on free movement of products.
- Member countries face several difficulties due to the non-institutionalised domestic markets of the EEU.

According to a survey in EEU member countries, the public perception of the EEU is changing, depending on how much benefits the countries receive. For Russia, public support of the EEU is steadily declining annually, due to the fact that the Russian public does not perceive the expected results and may thus not be interested in the EEU.⁵

Table 2. Trust and Support of the Population of EEU's Five Member States.

	2014	2015	2016	2017	2018
Kazakhstan	84%	80%	74%	73%	70%
Russia	79%	78%	64%	60%	60%
Kyrgyzstan	50%	86%	81%	84%	86%
Armenia	64%	56%	46%	46%	43%
Belarus	68%	60%	63%	60%	61%

3 . EURASIA IS AN IMPORTANT DRIVER OF CHINA'S DEVELOPMENT

As Eurasia re-emerges as a pivotal region in international relations, China's influence is growing in this geopolitical space. As China continues its remarkable economic growth, it seeks to lead the region by offering its alternative to the global order. Launched in 2013, China's Belt and Road Initiative (BRI) has been regarded by many China observers as China's new geopolitical strategy, aimed at extending

⁵ "EDB Integration Barometer – 2017", <https://eabr.org/en/analytics/integration-research/cii-reports/edb-integration-barometer-2017-/>.

its sphere of influence, fostering new norms of international economic cooperation, and promoting a new world order.⁶ Moreover, China's interest in establishing a new maritime route along the Arctic, under the "Silk Road Economic Belt and 21st Century Maritime Silk Road", one of China's initiatives, shows China's policy towards Eurasia. China's policy in a new geopolitical environment can be summarised as follows:

- To deepen its connectivity with countries;
- To create a network of transportation and communications;
- To facilitate trade;
- To increase mutual understanding among regional countries on land, at sea and in cyberspace.

China seeks to expand its sphere of influence so as to become a global superpower and to build an alternative world order. In order to achieve its strategic goal, China may see that it is important to create regional and international architectures. Many researchers argue that China's Belt and Road Initiative and Asian Infrastructure and Investment Bank are the most successful projects being implemented in Eurasia.⁷ However, it should be mentioned that these projects face some challenges in terms of implementation:

First, there are other powerful cooperation mechanisms based on more liberal norms of international law; hence, China needs to make a choice between the two alternatives of "using propaganda" against those mechanisms or improving their projects to match them in order to compete with the existing ones.

Second, to some extent, there are interest and expectation gaps among members of the AIIB, consisting of more than 60 countries involved in the Belt and Road Initiative and including around 20 Western countries. It is doubtful that Ethiopia, Iran and Kazakhstan have similar views and expectations as the UK and Germany. In this sense, it is interesting to see how China will manage differing interests and expectations.

⁶ Research Division Asia / BCAS 2018 | Session NR. 2, October 2018, "The Belt and Road Initiative: China's New Geopolitical Strategy?", Zhixin Zhang, https://www.swp-berlin.org/fileadmin/contents/products/projekt_papiere/Zhang_BCAS_2018_BRI_China_7.pdf.

⁷ Rolland, N. "China's Eurasian Century?: Political and strategic implications of the belt and road initiative", https://www.researchgate.net/publication/321889820_China's_eurasian_century_Political_and_strategic_implications_of_the_belt_and_road_initiative.

Third, the aforementioned projects might face challenges depending on the political regimes and systems of member states. Projects financed by China in cooperation with the authorities of Central Asia and African countries often face public resistance from citizens and public organisations.

Fourth, China is not the only country that is offering a development model to developing countries in the Southern Hemisphere. It is quite a challenge for China as many of the developing countries are influenced by powerful nations, including the US, Australia, Japan and India. However, China has already begun an era of attempting to dominate the world stage alone, as some experts argue.⁸

Fifth, there are some concerns that the Belt and Road Initiative might be affected by the deteriorating financial situation in China's state-owned banks.⁹

The period of seven years is not enough to evaluate this initiative fully and predict its future. More time and broader research are needed to more precisely evaluate the investments, benefits and risks for each country involved in the project,¹⁰ as some researchers have concluded.

On the other hand, China itself has evaluated the success of the Belt and Road Initiative. According to its estimates, as of 2018, over 100 countries have signed co-operation documents with China, and it has established production networks with over 30 countries and economic and trade areas with 24 countries, and successfully implemented 75 big and 270 small projects in 5 areas of cooperation under the Belt and Road Initiative. Furthermore, China paid US\$2.4 billion of taxes and created 300,000 new jobs.¹¹

⁸ See, for example, "The Rise of China: Challenges, Implications, and Options for the United States", Nguyen Thi Thuy Hang, Indian Journal of Asian Affairs, Vol. 30, <https://www.jstor.org/stable/26465816?seq=1>.

⁹ Simeon Djankov and Sean Miner (eds.), *China's Belt and Road Initiative: Motives, Scope, and Challenges*, https://books.google.mn/books?id=YbiqCwAAQBAJ&pg=PT9&lpg=PT9&dq=Belt+and+Road+Initiative++China%20%99s+state-owned+banks&source=bl&ots=83KFVhUGg7&sig=ACfU3U1ISqelfI8_YQIyy2nSbkZnZ5rD3A&hl=mn&sa=X&ved=2ahUKEwjYqYqlJ5XqAhWRBlgKHYrDAZMQ6AEwCnoECAgQAQ#v=onepage&q=Belt%20and%20Road%20Initiative%20%20China%20%99s%20state-owned%20banks&f=false.

¹⁰ Blume, G. (2018). "Rückschlag für Chinas Seiden- straße." Der Spiegel. Cited in: Linn, J.F. and Zucker, L. "An 'Inside-out' Perspective on the Impact of the Belt and Road Initiative in Central Asia and the South Caucasus: How to Maximize Its Benefits and Manage Its Risks", Background Paper, Emerging Markets Forum, p. 3, note 8, <http://www.emergingmarketsforum.org/wp-content/uploads/2019/02/An-Inside-out-Perspective-Compiled-2019-01-07-FOR-WEB.pdf>.

¹¹ "BRI-related economic, trade cooperation zones create 300,000 local jobs", 6 April 2019, Yang Yi, http://www.xinhuanet.com/english/2019-04/06/c_137955313.htm.

Table 3. Belt and Road Initiative's Funding Source and Spending Purposes.

Silk Road Fund	US\$10 billion /Additional investment of 100 billion Yuan in 2017/
Asian Infrastructure Investment Bank	Invested US\$3.4 billion in 20 projects
China Development Bank's Financing and Funding to Belt and Road Initiative	Allocated 100 billion Yuan to infrastructure, 100 billion Yuan to manufacturing sector and 50 billion Yuan to financial sector
EXIM bank	100 billion Yuan of Exclusive Fund 30 billion Yuan of Exclusive Fund for Infrastructure
Economic assistance to developing countries along the Belt and Road Initiative	2.2 billion Yuan
Under the auspices of South-South Cooperation	US\$1 billion

Most of the funding provided under the Belt and Road Initiative is focused on infrastructure. The future actions and plans were discussed during the Second Belt and Road Forum for International Cooperation organised in April 2019. The world leaders present stated their commitment to the Belt and Road Initiative and other cooperation strategies and agreed to intensify international cooperation on a sub-regional, regional and global scale. During the Second Forum, the countries present also agreed to implement 283 cooperation projects, with a total worth of US\$64 billion.¹² The 2019 forum exceeded the previous one in terms of scope and achievements. Basically, the collective efforts of the past six years have laid a strong foundation for the infrastructure connectivity proposed by the Belt and Road Initiative. In particular, there are six economic corridors and groups of projects consisting of networks of railroads, roads, maritime routes and communications in place. In addition, more than 150 countries and international organisations have signed cooperation documents with China's Belt and Road Initiative.

According to a recent report by the World Bank, the Belt and Road Initiative increased trade flows among participating countries by up to 4.1 percent, and decreased the length of global freight transport by 1.2-2.5 percent and general cost of trade by 1.2-2.2 percent.¹³ This initiative positively influenced FDI, trade, jobs and economic growth globally.

¹² "Chinese President Xi Jinping speaks at the opening of an international forum on China's 'One Belt, One Road' Initiative (BRI) in Beijing on April 26, 2019", <http://en.people.cn/n3/2019/0426/c90000-9572819.html>

¹³ "How the Belt and Road Initiative changes trade times and trade", <https://blogs.worldbank.org/trade/hurry-how-belt-and-road-initiative-changes-trade-times-and-trade>.

During the Second Forum, the relevant countries and international organisations jointly launched the Beijing Initiative for the Clean Silk Road. It was an expression of political will shown by China and many other countries to intensify anti-corruption cooperation and enhance the rule of law within the Belt and Road Initiative. On the same occasion the BRI International Green Development Coalition was launched. Participating organisations of the Coalition expressed their commitment to promoting coordination between the UN's 2030 Agenda Sustainable Development and the Belt and Road Initiative's planned actions, developing internationally acceptable norms, standards and best practices and protecting economic growth, social development and the environment.

4. REGIONAL MULTILATERAL COOPERATION MECHANISMS IN EURASIA AND MONGOLIA'S INVOLVEMENT

4.1 Mongolia seeks to cooperate with the EEU by establishing an FTA

Mongolia has cooperated with the EEU since 2014. The country is located between two enormous markets. Mongolia often exports raw materials to China, while it exports very few products to the five countries of the EEU. A study of the markets of these countries indicates that they are interested in importing finished products and minerals. Opening this large market to Mongolia would be of great importance. This bloc mainly sets up and implements trade, customs and tariff policies. Tariffs are differentiated on every product. If a country exports products to one of the EEU members, then the same duties and tariffs will be applied by each of the members of the union. In general, tariffs are high, because member states seek to protect their domestic markets from external competition. In particular, the highest tariffs are imposed on agricultural products. Mongolia seeks to export its agricultural products to those countries.

Mongolia signed a "Memorandum of Understanding between the Government of Mongolia and Eurasian Economic Commission" (EEC) for starting official cooperation with the EEU. According to the MOU, the two sides seek to set up a "Joint Working Group of the Government of Mongolia and the EEC", eliminate tariff and non-tariff barriers and ease trade and customs regulations. Moreover, it is also agreed by the two sides to set up beneficial, secure and stable transport services, ensure quality production growth and create favourable conditions for increasing the competitiveness of businesses in Mongolia and members of the EEU.

As Russia delegated its authority to regulate transport tariffs and customs duties to the Eurasian Economic Commission, Mongolia needs to participate in the activities of the Commission as an observer and seek support in terms of transport tariffs and customs duties from the Commission.

Currently, the Joint Working Group of the Government of Mongolia and the EEC in cooperation with a research team are investigating the creation of an FTA. Common tariffs introduced by the Eurasian Economic Commission are imposed on the exports from Mongolia to those five countries. Starting from February 2019, the Commission introduced new tariff rates. There are opportunities for Mongolia to enter the EEU common market. For example, Mongolia is geographically able to export its products to Kazakhstan via Bayan-Ulgii and Khovd provinces and to sell products to Russia via Selenge province. In Belarus, the agricultural sector is well developed.¹⁴ The country's production of dairy products accounts for 100 percent of total consumption generated by the EEU. Therefore, there is no room for Mongolian dairy products to be exported to the EEU market. However, Mongolian meat products can be the focus of exports to this market, as Belarus's meat production accounts for 40-50 percent of total consumption generated by the EEU.

When Mongolia exports agricultural and light industry products to the EEU market, 15-25 percent of customs duties and 12-20 percent of VAT will be applied.¹⁵ By establishing an FTA, tariff preferences will be granted to both sides. This does not mean that tariffs and duties will be eliminated fully. According to the Customs Law of Mongolia, customs tariff consists of the general, the most favoured and the preferential rates. The preferential rates in the customs tariffs are applied to exports and imports regulated by international agreements. Similarly, if Mongolia establishes an FTA with the EEU, the preferential rates in the customs tariff will be applied to Mongolian exports to the EEU market. On the other hand, the preferential rates in the customs tariff will be imposed on goods originating from the countries of the EEU.

The EEU has established an FTA with Vietnam, after eight years of negotiations. As tariff rates are differentiated, high rates of customs duties will be imposed when Vietnam exports agricultural products, including on rice, which is the main export product of Vietnam. This effectively means that Vietnam will never export products to the Russian market given these high tariffs. However, these tariffs will be

¹⁴ "EAEU and Mongolia", <http://www.mfa.gov.mn/?p=38565>.

¹⁵ "Strengthening Cooperation with the EAEU", <https://zasag.mn/news/view/16591>.

reduced step by step by 2020. It is therefore important to heed the lessons learnt from the Vietnamese case of establishing an FTA with the EEU.

4.2 Mongolia's "Development Road" Initiative, Belt and Road Initiative and "Mongolia-Russia-China" Economic Corridor

During the state visit by Mongolian President Khaltmaagiin Battulga to China in 2019, the two sides signed a Memorandum of Understanding to establish a "Joint Council of Supporting Trade and Investment". With the support of the two governments, the Joint Council will act as a bridge between the Belt and Road Initiative and the "Mongolia-Russia-China" Economic Corridor to coordinate actions and plans and organise regular meetings. Furthermore, it will provide support for the pledges and policies of the two governments and implement planned actions in the short term.

In 2017, the government of Mongolia approved a National Program for Implementation of the "Development Road" in 2017-2021. The main objective of the Program is to accelerate infrastructure and tourism development, get connected to the infrastructure of foreign countries, in particular its two neighbours, facilitate trade and transport and create favourable conditions for maintaining economic growth and diversification of the economy.

While seeking to promote coordination of the "Development Road" and the Belt and Road Initiative, Mongolia and China are actively working with Russia to facilitate trilateral cooperation and to implement the "Mongolia-Russia-China" Economic Corridor. The three countries signed a Program for the Establishment of the "Mongolia-Russia-China" Economic Corridor in June 2016. The main objectives of the Program are to expand trilateral cooperation by boosting trade turnover between Mongolia, Russia and China, increasing competitiveness of products, facilitating trans-border trade and developing infrastructure. The 32 projects agreed by the three countries to be implemented are included in the appendix of the Program.

Within the framework of the Program for the Establishment of the "Mongolia-Russia-China" Economic Corridor, the three sides agreed to establish a working group to conduct a feasibility study to modernise the "Central Corridor" and facilitate the implementation of the "Trilateral Intergovernmental Agreement on International Transport via the Asian Network of Highways" and the establishment of the "Joint Investment Planning Center".

In conclusion, China and Russia are certainly both looking with equal yearning towards Eurasia. Both continental powers consider Eurasia their strategic backyard, and both have launched ambitious initiatives to strengthen their influence over the region: the Eurasian Economic Union for Russia, the Belt and Road Initiative for China. But their common focus does not mean they are necessarily competing against each other in this vast continental space. Rather, China and Russia share similar concerns about Eurasia's political stability and security.

Mongolia signed an "Action Plan of Cooperation in Road and Transport" with the EEU. This plan includes facilitation of transport, logistics and customs, exchange of information and coordination. With this plan, Mongolia will be able to coordinate its actions with Eurasian countries based on increasing freight turnover, using its advantage of being the shortest road connecting Europe with Asia.

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