

Tuva and Mongolia: At the Nexus of Economics and Culture

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Abstract

The past few years have brought an increase in economic ties between Mongolia and the Russian Federation's Republic of Tuva, with Mongolian entrepreneurs investing in several industrial projects across the border. Amid the collapse of relations with the West, Russia is seeking out new partners in Asia. Mongolia is certainly not China, but its growing economy and cultural commonalities with southern Siberia may create new opportunities for regional economic integration. Growing Tuvan–Mongolian relations provide an example of how this process could occur in other border regions.

There is a fascinating passage in journalist Anna Reid's 2002 travelogue, *The Shaman's Coat: A Native History of Siberia*, in which the author raises the question of separatism while interviewing Kadyr-ool Bicheldei, an opposition politician in the Russian Federation's obscure Tuva Republic. The subject is provocative, but hardly unthinkable: nestled deep in southern Siberia along the border with Mongolia, Tuva is the only region in Asian Russia where the indigenous titular nationality makes up the majority of the population. Isolated, impoverished, and underdeveloped, it is also one of the least "Russian" places in Russia. Outside the capital city, Kyzyl, many speak Russian poorly, and interethnic hostilities have long been an underlying tension in Tuva. Since the collapse of the Soviet Union, Russians and other "non-native" ethnic groups have frequently migrated out of the region in search of better socio-economic opportunities elsewhere or because of interethnic tensions—a dynamic more reminiscent of Kyrgyzstan or Uzbekistan than a region within the Russian Federation. And Tuva has even had experience with self-governance: it was a nominally independent state between the two World Wars.

In response to Reid's enquiries, Bicheldei—known as somewhat of a Tuvan nationalist in the early 1990s—brushed the issue of independence aside. Tuva, a region of only around 300,000 people, was simply too small to exist separately, he insisted. An independent Tuva would only fall under the thumb of China. When Reid pressed on about the appeal of pan-Mongolian unity (Tuvans speak a Turkic language, but are culturally similar to Mongolians and were once ruled by them), Bicheldei was equally categorical: "A union with Mongolia to share poverty? Where's the sense in that?"¹

Separatism may still be only a Tuvan nationalist pipe dream, but regional fortunes have changed in unexpected ways since Bicheldei uttered those words. A mineral mining boom in Mongolia has made the land of Genghis Khan the fastest growing economy in the world

for the past several years, and both Ulaanbaatar and Kyzyl (the Tuvan capital) are now eyeing greater economic and cultural ties. Russia and Mongolia's decision in September 2014 to cancel the visa regime between their countries for visitors staying no longer than 30 days will only serve to further lower the barriers to Tuvan–Mongolian cooperation.²

With Russia facing Western economic sanctions for its role in the Ukraine crisis, the Kremlin is increasingly looking to the East for new partners, most critically in Beijing. But Russia-watchers should not overlook Ulaanbaatar. Mongolia may lack the sheer economic might of China, but cultural commonalities with south Siberia and the poor economic position of the regions directly across the border in Russia can create unique opportunities for investment and cooperation. In this regard, Tuva's growing ties with its southern neighbor may provide an example for other parts of the south Siberian region.

Changing Regional Fortunes

The improvements in Mongolia's fortunes largely stem from the Oyu Tolgoi copper and gold mine, a joint project of the London-based Rio Tinto Group, Canada's Turquoise Hill Resources, and the Mongolian government. Even before starting commercial production in July 2013, the mine was expected to account for over 30% of Mongolia's economic output.³ The country's recent GDP growth has been staggering, peaking at 17.5% in 2011, then dropping to a still impressive 12.4% in 2012, 11.7% in 2013, and 10% in 2014.⁴

But Mongolia's economic development path has by no means been smooth. Beginning in 2013, a series of

1 Anna Reid, *The Shaman's Coat: A Native History of Siberia* (New York: Walker & Company, 2002), 112.

2 "Russia, Mongolia to sign visa-free travel agreement as part of Putin's visit," *TASS*, September 2, 2014, accessed January 15, 2015, <<http://itar-tass.com/en/russia/747697>>.

3 Matthew Hill, "Oyu Tolgoi to account for 33% of Mongolia's GDP in 2020," *Mining Weekly*, September 8, 2011, accessed January 15, 2015, <<http://www.miningweekly.com/article/oyu-tolgoi-to-account-for-33-of-mongolias-gdp-in-2020-2011-09-08>>.

4 Data on Mongolia, The World Bank, accessed January 15, 2015, <<http://data.worldbank.org/country/mongolia>>.

disputes between the Mongolian government and the mining companies over taxes and project costs threatened to derail the mine's expansion into the richest mineral deposits and shattered investors' faith in the country.⁵ The final dispute was only resolved in September 2014, putting the mine back on track, but leaving investor confidence on shaky ground.⁶ And there are other serious concerns: lower-income Mongolians have faced significant inflation, environmentalists are sounding the alarm about the side effects of mining, economists are worried about so-called Dutch Disease,⁷ and cultural changes brought about by rapid development and the increased presence of foreigners in the country have fueled nationalism and xenophobia. Additionally, few believe that these growth rates are sustainable indefinitely—as indicated by the decline in GDP growth since 2011. But the positive changes are undeniable: traditionally agrarian Mongolia is growing wealthier.

Meanwhile, across the border in Russia, prospects are hardly so good. A 2012 *RIA Rating* project ranking Russian regions by their socio-economic position placed Tuva second to last. Nearby border regions also fared poorly, with the Altai Republic (the only part of Russia that borders Kazakhstan, China, and Mongolia!) dead last, and the Republic of Buryatia and Zabaikalskiy krai falling within the bottom quarter of all regions.⁸

So it was hardly a surprise when, in March 2013, the Tuva Republic opened a representation office in Ulaanbaatar with the aim of advancing Tuvan–Mongolian economic cooperation. Most interestingly, however, was the fact that Mongolia—an increasingly wealthy country, but still lower middle income by World Bank standards—quickly became a source of investment for Tuva.

Economics and Culture

After its foundation, the Tuvan representation office grew into an important point of contact between Tuvan and Mongolian businesspeople, and the Mongolian business community expressed significant interest in several investment projects across the border. One year later, the press reported the representation office's successes: Mongolia's Universal Technology Company (UTC) Group had founded and registered a Kyzyl-based subsidiary, through which it planned to build a brick factory in Tuva. UTC would provide 120 million rubles worth of investment for the factory, which would eventually be capable of producing 20 million bricks per year.⁹ The Tuvan government would also have a role in the project: during negotiations with UTC, it agreed to cover 30% of the cost, to provide the company with 25 hectares of land for the factory, and to connect the site to the electrical grid.¹⁰

During the same period, another Mongolian company, Monalans, signed a protocol with the Tuvan Ministry of Agriculture and Food to open a joint enterprise in Tuva producing leather and fur products from local materials.¹¹ And plans to develop granite deposits in republic also attracted Mongolian investors. Finally, Tuvan and Mongolian entrepreneurs began actively presenting their goods at exhibitions on both sides of the border.

The interest was not just economic; deep cultural ties also played a significant role. An ethnic Tuvan from Mongolia helped to bridge the gap between Tuva and Mongolia, simultaneously serving as the director of both UTC Group and the Mongolian–Tuvan Cooperation Society. Meanwhile, Kyzyl's representation office in Ulaanbaatar dedicated serious efforts to building non-business ties in Mongolia—most notably, developing relations with Mongolia's Tuvan minority and helping Tuvan students studying in Mongolian universities better adapt to their host country. And the businesspeople of the Mongolian–Tuvan Cooperation Society even discussed carrying out joint social projects once their businesses got off the ground.

5 Michael Kohn and Yuriy Humber, "Rio's Oyu Tolgoi Shipment Deadline Slips Amid Mongolia Feud," *Bloomberg News*, July 1, 2013, accessed January 15, 2015, <<http://www.bloomberg.com/news/2013-07-01/rio-s-oyu-tolgoi-shipment-deadline-slips-amid-mongolian-dispute.html>>.

6 Robert Spence, "Rio Tinto Settles Tax Dispute with Mongolia; Oyu Tolgoi Mine Back On Track," *Mining Global*, September 15, 2014, accessed January 15, 2014, <<http://www.miningglobal.com/operations/1154/Rio-Tinto-Settles-Tax-Dispute-with-Mongolia-Oyu-Tolgoi-Mine-Back-On-Track>>; Cecilia Jamsmie, "Mongolia wants to regain investors confidence by returning mining licenses," *Mining.com*, May 6, 2014, accessed January 15, 2015, <<http://www.mining.com/mongolia-wants-to-regain-investors-confidence-by-returning-mining-licenses-52233/>>.

7 Pearly Jacob, "Mongolia: Ulaanbaatar Wrestles with Dutch Disease Dilemma," *EurasiaNet*, August 9, 2013, accessed January 15, 2015, <<http://www.eurasianet.org/node/67372>>.

8 "Reiting sotsial'no-ekonomicheskogo polozheniya sub'yektov RF v 2012 godu," *RIA Novosti*, June 11, 2013, accessed January 15, 2015, <<http://ria.ru/infografika/20130611/942488689.html>>.

9 Elena Petrova, "Predstavitel'stvo Tuvy v Ulan-Batore zainteressovyvaet v investitsiyakh v Tuvu mongol'skiy biznes," *Mangazeya*, March 21, 2014, accessed January 15, 2015, <<http://www.mngz.ru/russia-world-sensation/399381-predstavitelstvo-tuvy-v-ulan-batore-zainteressovyvaet-v-investitsiyah-v-tuvu-mongolskiy-biznes.html>>.

10 "Mongol'skiye investitsionnyye zainteressovalis' Tuvoy," *Tuva Online*, December 17, 2013, accessed January 15, 2015, <<http://www.tuvaonline.ru/2013/12/17/mongolskie-investitsionnyye-zainteressovalis-tuvoy.html>>.

11 "Podpisany protokoly namereniy o sotrudnichestve c Obschestvom Mongolo-Tuvinskogo sotrudnichestva i Kompaniyei 'Monlans' Mongolii," Ministry of Agriculture and Food of the Republic of Tuva website, December 17, 2013, accessed January 15, 2015, <<http://www.mcxyva.ru/about/info/news/1117/>>.

The visa-free agreement between Russia and Mongolia, which came into effect in November, now seems to be providing a second push toward greater Tuvan–Mongolian economic cooperation. Tour operators on both sides of the border are considering offering joint tour packages, and the Tuvan government hopes to discuss these new opportunities at a 2015 Russian interregional tourism forum, which, conveniently, will be held in Kyzyl.¹² Additionally, like other regions on the Mongolian border, Tuva may benefit from the increase in Mongolians visiting to make purchases, which has been reported since the new visa regulations came into effect.¹³ At a minimum, the visa-free regime will likely decrease obstacles to the kinds of meetings, discussions, and conferences key to economic cooperation.

Guarded Expectations

However, it would be foolish to assume that increased Mongolian investment in Tuva and cross-border cooperation will be a game-changer for the impoverished republic. Any fundamental improvements in Tuva's fortunes will require much more investment than Mongolia can provide. China's Zijin Mining Group is already investing in the development of the Kyzyl-Tashtyg polymetallic ore deposits near Kyzyl,¹⁴ and the Swedish company Auriant Mining has begun extracting gold from the Tardan deposit.¹⁵ Additionally, Tuva has several other significant mining projects financed by Russian state and private investors.¹⁶ But, the larger obstacle to comprehensive regional development in Tuva is probably not a lack of industry or resource extraction. Rather, as Sergei Chernyshov recently wrote in the business journal *Ekspert*, the issue is the Russian government's failure to resolve infrastructure problems that cut Tuva and other south Siberian "national republics" (Buryatia, Altai, and Khakassia) off from regional, national and global markets. Infrastruc-

ture is hardly as "sexy" as mining and industry, but it is critical to making those other projects work. Chernyshov compares the current situation—industrial investment without adequate infrastructure development—to a child "who has not yet learned to walk, but is already being prepared to be a track and field champion."¹⁷

In Tuva, the main infrastructure project is the Kuragino–Kyzyl Railway, which will eventually connect Tuva with Krasnyarsk krai and the wider Russian railway network. The project is expected to jumpstart resource extraction in the republic, allowing for the development of the rich Elegend coal deposit, with proven reserves of nearly 900 million tons.¹⁸ Kuragino–Kyzyl could also potentially be important for Mongolia. In November 2013, Tuvan leader Sholban Kara-ool suggested extending the railroad onward through Mongolia to the Chinese commercial hub of Urumqi.¹⁹ Later, in April 2014, Russian defense minister Sergei Shoigu, born in Tuva, proposed an even more ambitious plan to the Russian government: continuing the railroad further into China, and then possibly onward to India.²⁰ Mongolia's consul in Kyzyl stated that this plan, as well as Kara-ool's proposal to alter the route of the Tuvan section of Russia's M-54 Federal Highway, interested the Mongolian government and held potential economic benefits for Western Mongolia. On a broader scale, he suggested, the plans could mean greater Mongolian integration into the Russian and European market.²¹ But disorganization and financial issues have long stalled the Kuragino–Kyzyl project, making it difficult to take the extension plan entirely seriously. As of 2014, the first train was scheduled to run in 2018, but the physical construction work had hardly begun.²²

12 "Turoperatory Tuvy gotovyatsya v 2015 k perekhodu na bezvizoviy rezhim s Mongoliiyei," *Tuva Online*, January 3, 2015, accessed January 15, 2015, <<http://www.tuvaonline.ru/2015/01/03/turoperatory-tuvy-gotovyatsya-v-2015-godu-k-perehodu-na-bezvizovyy-rezhim-s-mongoliiyei.html>>.

13 "V Rossiye posle otmeny viz khlynuti mongol'skiye pokupateli" (TV broadcast transcript), *Pyatyy kanal*, December 20, 2014, accessed January 15, 2015, <<http://www.5-tv.ru/news/92744/>>.

14 "Dobycha polimetallicheskikh pud na Kyzyl-Tashtygskom mestozhdenii," Ministry of Economy of the Republic of Tuva website, accessed January 15, 2015, <<http://mert.tuva.ru/directions/investment-policy/investment-projects/polymetallic-ore/>>.

15 Dina Oyun and Dolaana Salchak, "V Tuve vvedena v stroi fabrika po promyshlennoi dobyche zolota," *Tuva Online*, August 26, 2012, accessed January 15, 2015, <<http://www.tuvaonline.ru/2012/08/26/v-tuve-vvedena-v-stroy-fabrika-po-promyshlennoy-dobyche-zolota.html>>.

16 "Krupniye investitsionnye proyekt," Ministry of Economy of the Republic of Tuva website, accessed January 15, 2015, <<http://mert.tuva.ru/directions/investment-policy/investment-projects/>>.

17 Sergei Chernyshov, "Nauchite rebyonka khodit," *Ekspert*, July 14, 2014, accessed January 15, 2015, <<http://expert.ru/siberia/2014/32/nauchite-rebenka-hodit/>>.

18 Maria Kolesnikova, "Russian Coal Producer OPK to Seek \$1 Billion in IPO (Update1)," *Bloomberg News*, June 7 2014, accessed January 15, 2015, <<http://www.bloomberg.com/apps/news?pid=newsarchive&refer=home&sid=a9qa07.VelnM>>.

19 "Tuva predlagaet prodlit' zheleznuyu dorogu Kyzyl-Kuragino do Kitaya," *RIA Novosti*, November 29, 2013, accessed January 15, 2015, <<http://ria.ru/economy/20131129/980692935.html>>.

20 "Sergei Shoigu predlozhit' zheleznuyu dorogu ot Tuvy do Kitaya," *Tuva Online*, April 3, 2014, accessed January 15, 2015, <<http://www.tuvaonline.ru/2014/04/03/sergey-shoigu-predlozhit-zheleznuyu-dorogu-ot-tuvy-do-kitaya.html>>.

21 "Mongol'skiy diplomat: initsiativy glavy Tuvy imeyut mezhdgosudarstvennoye znachenie," *Klub Regionov*, December 18, 2013, accessed January 15, 2015, <<http://www.club-rf.ru/17/news/32525>>.

22 "Ruslan Baisarov: 'Perviy poezd po doroge Kyzyl-Kuragino poidyot v 2018 godu,'" *Tuva Online*, March 1, 2014, accessed January 15, 2015, <<http://www.tuvaonline.ru/2014/03/01/ruslan-baisarov-pervyy-poezd-po-doroge-kyzyl-kuragino-poydet-v-2018-godu.html>>.

In this context, closer economic ties between Tuva and Mongolia are a palliative treatment for the republic's wider economic woes. What's more, they come during a period when Kyzyl is increasingly seeking to attract foreign direct investment (FDI). These efforts had their first major successes in 2012, when Tuva was ranked by the Russian-based World Organization of Creditors as the 18th highest receiver of FDI in the Russian Federation, a major leap from 2011, when it ranked 56th.²³ In November 2014, Tuva even created a special agency for attracting foreign investment.²⁴ Tuvan leader Kara-ool's 2011 attempt to seek out FDI in China's Inner Mongolia Autonomous Region suggests that, even when leveraging cultural ties to attract investment, Kyzyl is looking to greener pastures beyond Ulaanbaatar.²⁵ Mongolia is only part of the equation.

Conclusions

Despite the limitations of Mongolian investment in Tuva, we should not write-off its benefits. While unlikely to resolve all of Tuva's economic ills, it can still be a source of industrial development and jobs. Persistent efforts to build ties between Tuvan and Mongolian business communities may also lead to more investment should Mongolia's economy continue to thrive. And Mongolia may prove a profitable market for small-scale Tuvan agricultural producers' goods. Mongolian producers could see the same benefit in Tuva.

Furthermore, as Russia looks eastward in the wake of the Ukraine crisis, it will find a willing partner in Mongolia. Under the leadership of President Tsakhiagiin Elbegdorj, Mongolia has pursued an increasingly active foreign policy, initiating diplomatic contacts around the world.²⁶ Mongolia's growing economic ties with Tuva may provide a promising example for relations with other border regions of Russia. Both the Altai Republic and

Buryatia also have strong cultural ties with Mongolia (the Buryats are even considered ethnic Mongolians), and these regions could serve as the next destinations for Mongolian entrepreneurs in search of investment projects. Certainly, such ties have worked in the other direction. In June 2013, Kirsan Ilyumzhinov, the former head of the Republic of Kalmykia and the current president of the World Chess Federation, announced that his company Eurasia Finance would take part in the construction of a railroad in Mongolia. Ilyumzhinov credited his decision to invest both to Mongolia's rapid development and to cultural similarities that make it easier for Kalmyks, an Asian, Buddhist, people related to Mongolians, to work there.²⁷ Incidentally, it's not just Ilyumzhinov who is interested in Kalmyk–Mongolian ties. In December 2014, Mongolia resolved to open a full-fledged consulate in the Kalmyk capital of Elista. Aleksei Orlov, the current head of Kalmykia, suggested the decision stemmed from Mongolia's desire to advance economic and investment projects in the region.²⁸ Much like the growth of Tuvan–Mongolian ties over the last several years, these events reiterate the potential for cultural diplomacy, which had previously existed between Mongolia and Kalmykia, to lead to stronger business ties capable of promoting regional economic development.

Finally, Mongolia's experiences with mineral mining may provide an example for nearby regions of Russia. This will be especially important in Tuva. If Tuva's future truly lies in resource extraction, the republican leadership should actively study Mongolia's bumpy path, particularly the economic benefits, environmental effects, and social challenges posed by mining.

Closer economic ties between Tuva and Mongolia may not be an earth-shattering development, but they are still a net positive. In the coming years, we may see more border regions following in Tuva's path.

About the Author

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23 "Tuva priznana odnim iz liderov Rossii po privilecheniyu pryamykh inostrannykh investitsiy," World Organization of Creditors website, July 29, 2013, accessed January 15, 2015, <<http://www.woc-org.com/index.php?name=publications&op=page&pid=368>>.

24 "V Tuve sozdaetsya spetsializirovannaya organizatsiya po privilecheniyu investitsiy," Ministry of Economy of the Republic of Tuva website, November 21, 2014, accessed January 15, 2015, <http://gov.tuva.ru/press_center/news/economy/11562/>.

25 Mergen Loigu, "Tuva privilekaet zarubezhniye investitsii," *Tuva Online*, July 8, 2011, accessed January 15, 2015, <<http://www.tuvaonline.ru/2011/07/08/tuva-privlekaet-zarubezhnye-investicii.html>>.

26 Ankit Panda, "Mongolia: Activist and Ambitious," *The Diplomat*, April 8, 2014, accessed January 15, 2015, <<http://thediplomat.com/2014/04/mongolia-activist-and-ambitious/>>.

27 "Kirsan Ilyumzhinov rasskazal DOZHDIYU, chto tozhe stroit zheleznuyu dorogu, no v Mongolii i v 10 raz deshevle, chem Moskva-Kazan" (TV broadcast transcript), *TV Dozhd*, July 26, 2013, accessed January 15, 2015, <http://tvrain.ru/articles/kirsan_iljumzhinov_rasskazal_dozhdju_chno_tozhe_stroit_zheleznuyu_dorogu_no_v_mongolii_i_v_10_raz_deshevle_chem_moskva_kazan-346589/>.

28 Andrei Serenko, "Ulan-Bator i Elista forsiryut svyazi," *Nezavisimaya Gazeta*, December 24, 2014, accessed January 15, 2015, <http://www.ng.ru/regions/2014-12-24/6_elist.html>.