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ANALYSIS

Russo–Mongolian Relations: Closer than Ever

By Jeff Reeves, Honolulu

Abstract

This article considers Mongolia's motivations for deepening ties with Russia at a time when Moscow's foreign policy has many former Soviet Bloc states concerned. The article accomplishes this through examination of the two states' bilateral relations, both past and present.

Russia's foreign policy under President Vladimir Putin has many former Soviet Bloc nations and former members of the Warsaw Pact worried about Moscow's potential involvement in their domestic affairs. Political elite from Poland to Estonia, from Latvia to Moldova, have spoken out against what they perceive as Moscow's militarized diplomacy aimed at re-establishing a Russian sphere of influence over states and areas once under the Union of Soviet Socialist Republics' (USSR) control. These same elite point to Moscow's backing of pro-Russian forces in South Ossetia and its annexation of Crimea, in particular, as worrying examples of Moscow's use of force to secure its strategic interests. States on Russia's borders—its European neighbours, in particular—have opted to balance against Russia's behaviour through greater partnerships with Western states, such as the United States, and with Western institutions, such as the North Atlantic Treaty Organisation (NATO) and European Union (EU). Regardless of Moscow's overall intent and/or motivations, its foreign policy actions have contributed to a more anxious, less friendly periphery.

Mongolia—a former Warsaw Pact member and Soviet satellite state for more than seventy years—is, in this respect, a notable exception. Mongolia's government (hereafter, Ulaanbaatar) has been reticent in offering criticism of Russia's activities in Ukraine and pursuant in its quest for strong bilateral ties with Moscow. Mongolia abstained, for example, from voting for UN resolution A/68/L.39 ('Calling upon States Not to Recognize Changes in Status of Crimea Region'), which sought to provide direct censure of Moscow's activities in Ukraine. President Elbegdorj met with President Putin three times during the height of the Ukraine crisis, including once during an official state visit by Putin to Mongolia in September 2014. Rather than sanction Russia's actions, Ulaanbaatar commissioned a postal stamp featuring Putin's visage in October 2014. As states such as Georgia and Lithuania are working to limit their vulnerability to Russian involvement through partnership with Western states and institution, Ulaanbaatar is moving in the opposite direction.

At first consideration, Ulaanbaatar's quiescence in the face of Russia's current foreign policy is puzzling. Mongolia is just as vulnerable to potential Russian

'expansion', justified in historical, cultural, and nationalist terms, as many of Russia's other neighbours. Mongolia was a satellite state to the former Soviet Union for seventy years and a Warsaw Pact member and, as such, maintains close institutional and cultural ties to Russia. More importantly, the Buryats in Northern Mongolia are ethnically related to the Buryats in Republic of Buryatia, a federal subject of Russia. The inclusion of Russian ethnic 'nationals' in the Mongolian states provides Russia with a justification for intervention in Mongolian domestic affairs in line with that it employed in Georgia and Ukraine. While Moscow has given no indication it has any intention toward Mongolia other than respect for its sovereignty, the conditions for Russian involvement in Mongolia do exist according to precedent.

On further consideration, however, one can discern three primary drivers behind Ulaanbaatar's cooperative foreign policy direction toward Russia. First, in contrast to former Soviet Bloc states in Europe that have been moving closer to the EU in recent years, Mongolia has spent the last decade actively strengthening its ties with Russia across a range of sectors. Second, cooperation between the two states is developing for Mongolia in ways that allow it more room for manoeuvre within its largely confining regional geographic position. Third, Russia has re-emerged as an important partner to balance China; a state on which Mongolia is increasingly, and uncomfortably, dependent. As such, Mongolia has little to gain from censuring Russia's foreign policy.

Background

One must consider the two states' recent history to best understand their contemporary relations. For most of the twentieth century, Russia played the decisive foreign role in Mongolia's domestic development, whether one measures such development in cultural, political, or economic terms. The imperial Russian leadership supported Mongolian independence from China in 1911, helping to end the Qing Dynasty's suzerain control over 'Outer' Mongolia. Following the Russian revolution, the Red Army drove the White Guards from Mongolia in 1921 and Soviet advisors helped a group of Mongolian revolutionaries establish the Mongolian People's Republic in 1924. While never a formal part of the USSR, Mon-

golia drew extensively from Russia's communist model of social development to establish its own political and economic institutions. By 1940, Mongolia had become a Russian satellite state; a status it maintained until the Soviet Union's collapse.

Russo–Mongolian relations deteriorated sharply in the immediate post-Cold War years. Turning inward as a result of its own domestic and foreign crisis, Russia suspended its economic support to Mongolia, which as of 1989 constituted around 50 per cent of the country's gross domestic product. Mongolia entered into an economic crisis as a result and turned to the World Bank and International Monetary Fund for support in the early 1990s. Mongolia's adherence to these international financial institutions' loan and aid conditionality provided impetus to the country's nascent democratic movement. The breaking of economic ties with Russia and the adoption of liberal economic/democratic institutions ended the patron/client relationship between the two states.

Ties between Russia and Mongolia were troubled for much of the 1990s, despite formal attempts to reignite bilateral relations with the 1993 signing of a Cooperation Treaty. A great deal of the friction in their bilateral relations during this time was the result of hesitancy on Ulaanbaatar's part for closer ties; a reflection of the post-revolution Mongolian state's strategic priorities of independence and nonalignment. In 1994, for example, Mongolia implemented policy designed to create political and economic distance between itself and Russia as part of its 'balanced relationship' approach to foreign relations. Ostensibly a policy created to attain a balance between Mongolia and its two neighbours, the 'balanced relationship' approach was inherently unbalanced as it elevated the importance of relations with China over those with Russia in an attempt to lessen Moscow's lingering influence. The policy resulted in trade friction and confrontation over outstanding debt between the two states and allowed China to develop a disproportionate degree of influence over Mongolia's economic system.

Relations between Moscow and Ulaanbaatar started to improve in the early 2000s, mostly the result of Russian President Putin's diplomatic outreach and Moscow's decision to cancel \$11.4 billion in Mongolian debt in 2003. The two states signed the 'Ulaanbaatar Declaration' in 2000, in which Russia acknowledged Mongolia's importance in Central Asian affairs and committed itself to supporting Mongolia through military partnership and cooperation. In 2006, Moscow and Ulaanbaatar signed the 'Moscow Declaration,' which provided a political basis for an expansion of economic ties between the two states. Similarly, in 2009, the two states signed a 'Strategic Partnership Declaration,' which fur-

ther developed the Moscow Declaration's political basis for economic exchange.

Improved Relations

Recent years have seen an uptick in Russo–Mongolian relations across a range of sectors. Military cooperation between the Mongolian Armed Forces (MAF) and Russian Armed Forces (RAF), for example, has expanded significantly since 2000, with a particularly increase since 2007. In 2007, for example, the two sides established the Mongolian–Russian joint working group on military-technique cooperation, which formed a basis for military-to-military exchange between the two states. The two states' 'Darkhan' exercise, which focuses on repair and restoration of Russian-made military equipment in field conditions, has become a semi-regular venue where Russian and Mongolian military officials interact on inter-operability and joint-training. The two states' bilateral 'Selenga' exercise—held every year regularly since 2008—expanded from its counter-terrorism focus to include war games involving T-72 tanks, BMP-2 infantry combat vehicles, Mi-24 helicopter gunships, and over 500 military servicemen in 2014.

Russia is largely responsible for this expansion of bilateral military-to-military interaction as it has provided the funding and military hardware for the training exercises through military aid. In 2008, for example, Russia gave Mongolia \$2.5 million in military equipment and pledged to help the MAF modernise its Soviet-era military hardware. Moscow has also provided funding and opportunity for MAF officers to attend Russia's staff colleges and to train in military institutes with the Russian Ministry of Defence. Moscow has also worked to re-establish cultural linkages between the two countries' armed forces, the most prevalent example of such efforts being the 2014 joint celebration in Ulaanbaatar of the 75th anniversary of the Battle of Khalkhin Gol.

Political ties between the two states have also expanded, particularly since 2006 when the two countries signed the Moscow Declaration outlining areas for political and economic cooperation. Since 2006, both states have exchanged numerous high-level political visits and agreed to a strategic partnership in 2009, when then-President Dmitry Medvedev travelled to Mongolia and signed a Declaration on Developing a Strategic Partnership with President Elbegdorj. Sub-state political relations—such as between the mayors of Moscow and Ulaanbaatar—have developed in support of larger state relations and constitute an important component of the two states' political relations.

More relevant for discussion of contemporary relations, President Putin travelled to Mongolia to meet

with President Elbegdorj in 2014. Among notable economic deals (on which more is written later), the two men agreed to a protocol governing readmission between the two states, where both Russian and Mongolian passport holders can travel visa-free between the two states for up to 30 days. This agreement—which came into effect on 14 December 2014—marks the return of diplomatic relations to the level the two states enjoyed during the Cold War years and is, as such, a remarkable and symbolic development.

Economic ties—dramatically curtailed in the early 1990s—have also become an increasingly important component of the two states' contemporary relations. For Mongolia, the most important aspect of economic exchange with Russia is its imports of oil and gas from the country, which constitute 90 per cent of Mongolia's total oil and gas imports. On the one hand, Ulaanbaatar has sought to lessen the degree of its dependence on Russian supplies. On the other hand, the two states' energy relations are expanding. In 2014, for example, Russia's state-owned firms Rosneft and Transneft voiced support for construction of a pipeline through Mongolia that would both supply Mongolia and serve as a transit route for energy exports from Russia to China. Mongolia has long lobbied for the pipeline to pass through its territory as it would mean greater energy security for the state (which has a rapidly expanding domestic demand for energy related to its mining activities) and more revenue for territorial use.

Other economic ties between the two states include Russia's continued investment in and ownership of Mongolia's rail line. During a visit in 2009, Russia agreed to provide Mongolia with \$250 million to expand the country's rail line using Russian standard gauge. Both states see the expanded rail line as a key to greater economic linkages. Russia and Mongolia have also undertaken a number of important joint-ventures in Mongolia including in Mongolia's Erdent copper mine and the Mongolrostsvetmet LLC fluor spar mine. The Russian company Rostselmash and the Mongolian company Agromashtekhnika signed an agreement in Ulaanbaatar on 19 February 2014 for cooperation in Mongolia's agricultural sector.

While economic ties between Russia and Mongolia remain minimal compared to China and Mongolia's contemporary economic relations, Ulaanbaatar views them as essential in helping the state avoid dependency on China and as important components of its balanced approach to relations. To support these relations, Russia and Mongolia regularly engage at the state-level through the annual Russian–Mongolian Business Forum and the annual Russian-sponsored 2014 International Economic Forum.

Improved Relations/Strategic Importance

In addition to the benefits Mongolia enjoys across its security, political, and economic sectors, improved relations with Russia also carry significant strategic value for the state in three important ways. Firstly, partnership with Russia provides Mongolia with an important countervailing force to China's growing influence in line with its continuing 'balanced relationship' approach. Russia's importance, in this regard, has grown in tandem with China's increasingly dominant position over Mongolia's domestic economy through trade, investment, and aid. For Mongolia, the more developed its relations with Russia become, the more Mongolia can leverage these relations to balance China's dominance. Mongolia's 'balanced relationship' approach is once again unbalanced, although this time toward greater relations with Russia to offset China's influence.

Secondly, improved ties between the two states translate into increased stability for Mongolia within two important multilateral venues for the country: the Shanghai Cooperation Organisation (SCO) and the Conference on Interaction and Confidence Building Measures in Asia (CICA). In regard to the SCO, Mongolia is currently an observer but is interested in full member status. Good relations at a bilateral level with Russia increase the prospect of Mongolia's accession to the organisation and increase the SCO's overall desirability. Russia's position in the organisation provides a balance to China (the SCO's other great power member), thereby lending legitimacy to the SCO's claim of equality among member states. Russia plays a similar role in relation to CICA, in which China occupies the other central position.

Thirdly, and most significantly in relation to Russia's role in Mongolia's multilateral affairs, is the Moscow-proposed trilateral meeting between Russia, Mongolia, and China; the first meeting of which took place in Dushanbe in 2014 at the Deputy Minister of Foreign Affairs-level. For Ulaanbaatar, a trilateral agreement with Russia and China would provide a far more balanced approach to regional security, economic exchange, and political affairs. Moscow's efforts toward this end serve Mongolia's strategic interests extremely well.

Conclusion

One gains a greater understanding of Mongolia's reticence toward criticising Russia's foreign policy when one considers the changing nature of the two states' bilateral relations and the impact that these relations have on Mongolia's strategic environment, particularly in relation to Mongolia's ties with China. The prospect of a resurgent Russia—once more intent on reclaiming parts of the former Soviet Union to expand its sphere

of influence—fits closely with Mongolia's domestic and foreign aims of a balanced approach to foreign relations. Rather than pose a threat to Mongolian sovereignty as it does for the Ukraine, Russia's foreign policy is an impor-

tant component of Ulaanbaatar's security. For Mongolia, a strong and assertive Russia is much preferable to a weak and complacent Russia. This is good news for Moscow, as it needs all the friends it can get.

About the Author

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ANALYSIS

The Mongolian Dream

By Yury Kruchkin, Ulan Bator

Abstract

This article provides an overview of the development of Mongolia and the potential the country holds for Russian diplomacy and business. Russia has failed to take advantage of opportunities in the past, though many possibilities remain open. In particular, there would be plenty of room for Russian small and medium businesses in the country if they were interested in working in Mongolia.

Any discussion of the current situation in contemporary Mongolia should begin, in my view, by debunking stereotypes. The lack of foreign news agencies in the country and the sad state of Mongolian studies around the world make this steppe country *terra incognita* for the majority of people on the planet.

On September 3, 2014, the author of this article met with the more than 40 journalists who make up Vladimir Putin's presidential press pool and who accompanied the Russian president during his visit to Ulan Bator. It would seem reasonable that respectable professionals should have a reliable picture of the country they were visiting and about which they write extensive analyses on concerning its relationship with Russia. However, my sense was that the journalists had only scanty information about Mongolia. Needless to say, they were sincerely surprised by the skyscrapers and the European manners of the youth.

This article will try to give a short overview of the events that took place in Mongolia over the last 25 years, during a time of democratic reforms. Above all, the country has gained true independence, established a multi-party system with pluralism of opinions and ideologies, adopted a new constitution, and carried out a cashless privatization of livestock and housing (2.4 million square meters for 83,000 families). Furthermore, Mongolians now travel freely around their own country and the world. By comparison, under socialism, it was

necessary to get a permit to travel between cities within the country. Journeys abroad were extraordinarily rare and foreign passports were confiscated as soon as a citizen returned home. Now more than 180,000 Mongolians live, work, and study overseas. Another major accomplishment has been the creation of a free press: today Mongolians are world leaders in the number of television stations and newspapers per person.

A Troubled Past: Mongolia in the 20th Century

Since the beginning of the 1990s, activists have worked vigorously to rehabilitate the victims of political repression from the 1930s and 1940s. Between September 10, 1937 and April 20, 1939, 25,785 people were repressed and, of these, 20,474 were executed. At that time, the population of the country was just 800,000. More than 30,000 Mongolians emigrated in those years. The Stalinist purges so completely decimated the educated and entrepreneurial elite of society that it was not surprising when the 24-year-old Yumjaagiin Tsedenbal was elected general secretary of the Mongolian People's Revolutionary Party in 1940: there simply was no one to choose from.

After the 1990s, the Mongolians received real freedom of religion. In the 1930s, more than 700 Buddhist monasteries were destroyed, and 100,000 lamas were converted into laity, or, more frequently, imprisoned (by

custom, each family delegated one son as a lama). From 1944 to the end of the 1980s, only one Buddhist temple, Gandan, was permitted, which was located in the capital, and the number of priests did not exceed 80. The only Orthodox church was closed in 1927. Even today, Mongolia is considered a non-religious country, though there are hundreds of Buddhist temples and Christian churches, dozens of mosques, and the Mormons actively proselytize. Interestingly, the Christian missionaries are mostly lead by South Koreans. New messiahs are cropping up and more people are starting to follow Zava Damdin Renbuchi, who received a religious education in a Buddhist monastery in Switzerland.

Recent Economic Growth

In 1921, there were four cars in Mongolia. By 1990, private citizens owned 4,500 vehicles. At the beginning of 2015, 400,000 automobiles filled the streets of Ulan Bator. The number, quality, and brands of the cars, to some degree, tell us something about the peculiarities of the country's economic development and the mentality of the population. For centuries, the Mongols were, and remain, nomads, always jealously observing the size of their neighbors' herds and the quality of their horses. Until the 1990s, Mongolians could only buy a car with the permission of the party and government. Since that time, thousands of Mongolians have acquired cars in Europe, usually Germany. Many of the cars were stolen. Since the 2000s, most cars come from South Korea and Japan.

Thus, the country was soon filled with old (cheap) foreign cars, among which there were almost no Soviet/Russian models. The elites went into debt to purchase prestigious BMWs, Chevrolets, and Porsches. Mongolia leads the world in the number of Hummers per capita and there is even a club for Hummer enthusiasts.

The climatic conditions in Mongolia have created a specific psychology among the population in relation to material wealth. First, the nomadic way of life does not lend itself to owning a large number of possessions or maintaining an extensive household. Second, after a cold winter, it is possible that nothing remains from a herd that once numbered in the thousands. If Chinese and Japanese farmers acquired wealth through daily hard work, for Mongols it was often by chance. In Mongol fairy tales, as with Russian versions, the main heroes often acquire everything quickly, as if a magic pike fulfilled their wish.

This perspective, therefore, probably explains how Mongolians take a philosophical view on the enormous fluctuation in the level of foreign investment in their economy. In 2008, foreign investment was at \$838.5 million, in 2011 it swelled to \$4,620 million with GDP growth of 17.5 percent, and in 2014, it dropped back to \$845 million.

The jump in 2011 was again connected with the environment, but in Australia, rather than Mongolia. A flood in that year blocked the delivery of Australian coal to China and Mongolia filled the niche, leading to the enormous jump in GNP. The government began to think about its social obligations to the population, and started to pay small allowances for children, bonuses for young people, and provide tax benefits to stockbreeders. At that time ideas about the Mongol Dream began to appear, drawing on the experiences of countries in the Persian Gulf.

Mongolia's construction sites and mines largely employ Chinese and North Korean migrant workers. The democratic elite of the country is not bothered by hiring laborers from these two countries for pennies. It is also fashionable to hire Filipino nannies and caretakers. The press even has begun to discuss whether it is possible to live well using one's natural resources and the cheap labor of foreign workers.

The waves of economic crisis spoiled this happy picture, but the visits of Chinese leader Xi Jinping and Russian President Vladimir Putin at the end of August-early September 2014 spurred hope for serious economic growth. Overall, Mongolia is reasonably successful in its foreign economic activity, enjoys good relations with its neighbors, and even acts from time to time as an intermediary in relations between Japan and North Korea. During the above-mentioned visits of the leaders of Mongolia's two major (competing) neighbors to Ulan Bator, both China and Russia promised to provide Mongolia credits and participate in mega-projects.

During these days, the sides agreed on the final set of conditions for the joint exploitation of Tavantolgoi, the world's largest coal deposit. From the Chinese side, the main participant is the state corporation China Shanxi Energy; from Japan, Sumitomo. The State Great Khural (Mongolian parliament) will most likely raise the bar for state-debt from 40 percent to 70 percent in the near future, which will make it possible for additional investments without breaking the law. The Tavantolgoi project requires a minimum of \$4 billion in investments.

The main problem in implementing the mega-projects for mining coal, copper, and iron is lack of infrastructure. For many years Mongolia discussed whether it was possible to build a narrow gauge railroad and has now finally reached a compromise decision: the tracks leading to Russia will remain the same gauge (compatible with Russian standard gauge) as exists now, while the tracks leading to China will be narrowed to meet Chinese standard gauges.

With Mongolia's compromise solution on railroad construction, the Russian state company Russian Railroads is expected to receive a share in Tavantolgoi as part

of a “coal in exchange for the construction of the railroad” deal. However, the participation, or more precisely the lack of participation, of Russian business in Mongolian projects deserves its own commentary.

The Role of Russian Business in Mongolia: Missed and Remaining Opportunities

“Our government, on one hand, wants to do something in Mongolia, but, on the other hand, does not know anything specific about Mongolia; no one is interested in it, and no one understands how it is important for Russia and for Siberia. In Russia, they do not understand that Mongolia is not Manchuria. Nevertheless, gradually, it seems, common sense is starting to appear in society.”

These words were written one hundred years ago by the famous Mongolia expert, Academic B. Ya. Vladimirtsov. They continue to be relevant today.

In various Russian agencies’ reports about cooperation with Mongolia, you will find phrases such as “Russian companies (Base Element, Severstal-Group, Renova, OAO MNPO Polimetall, RAO EES Rossii, Norilsk Nickel, VNII Zarubezhgeologiya) announce their readiness to participate in joint investment projects to develop the large mineral deposits in Mongolia.” And, yet, where is this participation?

It is possible to say that cooperation in the uranium sector and the extraction of rare earth metals has collapsed. During a meeting with then Moscow Mayor Yuriy Luzhkov, the author of this article laid out the following figures: For the last 15 years, Russia has only fulfilled 4 percent of the promises made by its top leaders in terms of developing Russian-Mongolian trade. However, I was not absolutely precise in delivering this message, because the real level does not rise above 1 percent.

Unfortunately, the stagnation in ties between Russia and Mongolia goes beyond trade and economic links, it affects the spiritual sphere as well. At one time, Mongolia was the second largest importer (following Israel) of Russian books.

The former Russian ambassador to Ulan Bator, B.A. Govorin claimed there are 300,000 Russian-speakers in Mongolia, while his deputy advisor, A. Shmanevskii asserted in 2010 that there were more than one million Russian-speakers. However, according to Mongolian Russian scholars, there are now only 80,000 people in the country who speak Russian to any extent.

The situation has become so bad that there is almost no one to do simultaneous interpretation or high quality translations in Mongolia. On the Russian-side, there are no such Mongolian specialists within the Ministry of Foreign Affairs.

Against this background, the Russian press’s fantasies about future cooperation with Mongolia seem to be based on who knows what kind of sources. A glaring example is the following passage from a comment by Andrei Fediashin (RIA Novosti, July 5, 2008):

“The leadership in Ulan Bator is ready to transfer to Rosneft more than one hundred gas stations on the territory of the country on the condition that they preserve the current price for fuel. Mongolia depends on the delivery of Russian petroleum products for 90 percent of its consumption.

However, large Russian firms would like to invest in Mongolian mineral deposits that have still not been developed.

It is possible that as a result of the victory of the MNRP in the upcoming elections, Russia will acquire the Oyu-Tolgoi gold and copper mine, with an estimated deposit of 30 million tons of copper and 8,000 tons of gold. Rusal, Norilsk Nickel and other Russian companies have expressed interest.

Additionally, the fate of the Tavantolgoi coal mine will be resolved in the near future. Estimates suggest that it bears 6 billion tons of coal, 40 percent of which is good for coking. Severstal, Renova, and Basel have expressed interest”.

The Mongolians received the idea about the 100 gas stations with hostility from the very beginning and the deal for the other sites never materialized for the Russian companies.

As a former employee of the Russian foreign ministry, the author considers that, in addition to the problems of a systemic character at the highest level, another obstacle to improved Russian–Mongolian relations is the Russian foreign ministry’s exaggeration of the impact of its own work in Mongolia, which consists mainly of organizing visits for high level delegations.

The visa regime between Russia and Mongolia, which has existed for 20 years, annually costs each side a minimum of \$200–250 million. Despite this enormous loss, has anyone taken the blame?

Nonetheless, in general, it is not necessary for Russia and Russian business to do much to “work in Mongolia” in order to find success. Projects for small and medium-sized business are sufficient. Importantly, Mongolia’s legislation offers profitable concessions for foreign investors and business. Even taking into account the crisis, the \$10 billion Mongolian economy will in the next few years grow by 5–7 percent. South Korean and Chinese businessmen have occupied some niches, but there is still room left for Russians. If Ukrainian President Petro Poroshenko can sell chocolates in Mongolia

for millions of dollars, then Russians should at least be able to match his success.

At the same time, from talking to Mongolian politicians and businessmen, Russians and all foreigners should realize that in the last 20 years Mongolians have had an opportunity to earn a higher education in many countries, they are highly literate, and you will not be able to deceive them.

For foreign businesses to establish themselves, it is important that they understand the culture underlying the business, political and social landscape in Mongolia. The thought process in Mongolia differs from those in other Asian countries. It is said that natives of East Asia see things in context, while people imbued in Western culture concentrate on the near-term. The former are drawn toward holism, while the latter to analysis. Mongolian perspectives are located somewhere between these two standpoints. As nomads, they are not collectivists like the Japanese, Koreans, or Chinese, but at the same time, you cannot place them in the individualist camp of the West. In East Asia, agriculture was always a communal affair, while the West developed farms in which the farmers typically kept their distance from one another. Over the last 20 years, the Mongolians have acquired the Western desire for individual success and this separates them from other residents of East Asia. Understanding this mentality is advantageous for establishing business ties.

Mongolian Foreign Policy: Goals and Challenges

Mongolia is located on the border of three world civilizations: Confucian, Islamic, and Orthodox. In some

sense, this country connects Europe and Asia. Its natural resource wealth provides a comfortable life for its population of three million. But, Mongolia also faces challenges to resolve significant ecological, mental and foreign policy problems.

The main task of Mongolian diplomacy is correlating the geopolitical interests of China and Russia with its own interests, and to this end seeking out a “third neighbor” which could guarantee the country against any surprises from its two large neighbors. The third neighbor has been, from time to time, the USA, Japan, and the European Union. Mongolia is lucky in many ways. Nobody blocks its progress. Its neighbors are reasonable and provide some help towards its development. Hence, one can say that the Mongolians create their own problems.

In my view, one of the main systemic problems it faces is with its political institutions. Adopted in the early 1990s on the crest of diplomatic waves, the Mongolian constitution is based on a complicated parliamentary-presidential system, which, many believe, hinders social-economic development, and undermines the stability of the government. The recently collapsed government of Prime Minister Norovyn Altanhuyag lasted for more than two years, a record for Mongolia. The political life of the country is characterized by constant personnel changes. The new coalition government will constantly slip and slide due to its internal disagreements and conflicts, but, on the other hand, reasonable people see that a solution will come in just over a year, during new elections.

About the Author:

Yury Kruchkin is an expert on Mongolian affairs. He formerly worked for the Soviet/Russian embassy in Ulan-Bator, has authored 80 books and dictionaries, and is the editor of Mongolian translations of Pushkin, Esenin, Visotsky and Pandjigidze. Currently, he is the author of the majority of materials on the mongolnow.com website. He was awarded an Order of the Polar Star by President of Mongolia in May 2014.

ANALYSIS

Tuva and Mongolia: At the Nexus of Economics and Culture

By Matthew Kupfer, Cambridge, Massachusetts

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 Tuva 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 Jamasmie, "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 zainteresovyyaet 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-zainteresovyyaet-v-investitsiyah-v-tuvu-mongolskiy-biznes.html>>.

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

11 "Podpisany protokoly namereniy o sotrudnichestve c Obshchestvom Mongolo-Tuvinskogo sotrudnichestva i Kompaniyey '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 Elegest 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 Mongoliyei," *Tuva Online*, January 3, 2015, accessed January 15, 2015, <<http://www.tuvaonline.ru/2015/01/03/turoperatory-tuvy-gotovyatsya-v-2015-godu-k-perekhodu-na-bezvizovyy-rezhim-s-mongoliyei.html>>.

13 "V Rossii posle otmeny viz khlynuli 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 mestorozhdenii," 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 vvodena 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=a9qaO7.VelnM>>.

19 "Tuva predlagat 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' prodlit' 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-prodlit-zheleznuyu-dorogu-ot-tuvy-do-kitaya.html>>.

21 "Mongol'skiy diplomat: initsiativy glavy Tuvy imeyut mezhdunarodnoye 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.

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Matthew Kupfer is journalist, translator, and graduate student at Harvard University's Davis Center for Russian and Eurasian Studies. His writing has been published by the Carnegie Endowment for International Peace, the Moscow Times, Radio Free Europe/Radio Liberty, EurasiaNet, and Registan.net.

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 privlekaet zarubezhnye 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/>>.

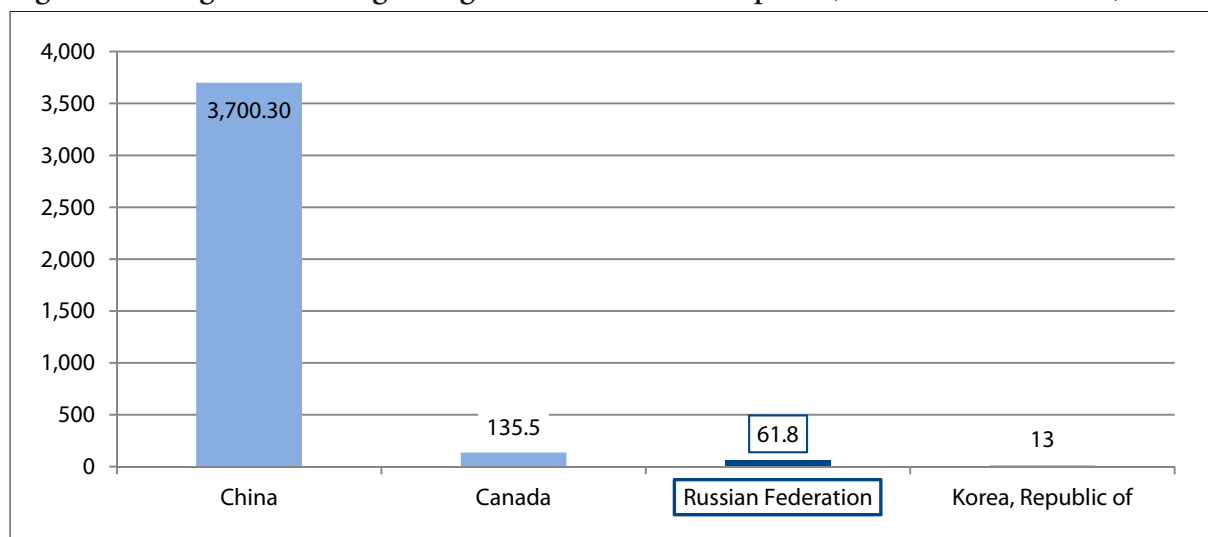
27 "Kirsan Ilyumzhinov rasskazal DOZHDIYU, chto tozhe stroit zheleznuyu dorogu, no v Mongolii i v 10 raz deshevle, chem Moskva-Kazan" (TV broadcast transcript), *TV Dozhd*, July 26, 2013, accessed January 15, 2015, <http://tvrain.ru/articles/kirsan_ilyumzhinov_rasskazal_dozhdju_chno_tozhe_stroit_zheleznuyu_dorogu_no_v_mongolii_i_v_10_raz_deshevle_chem_moskva_kazan-346589/>.

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

STATISTICS

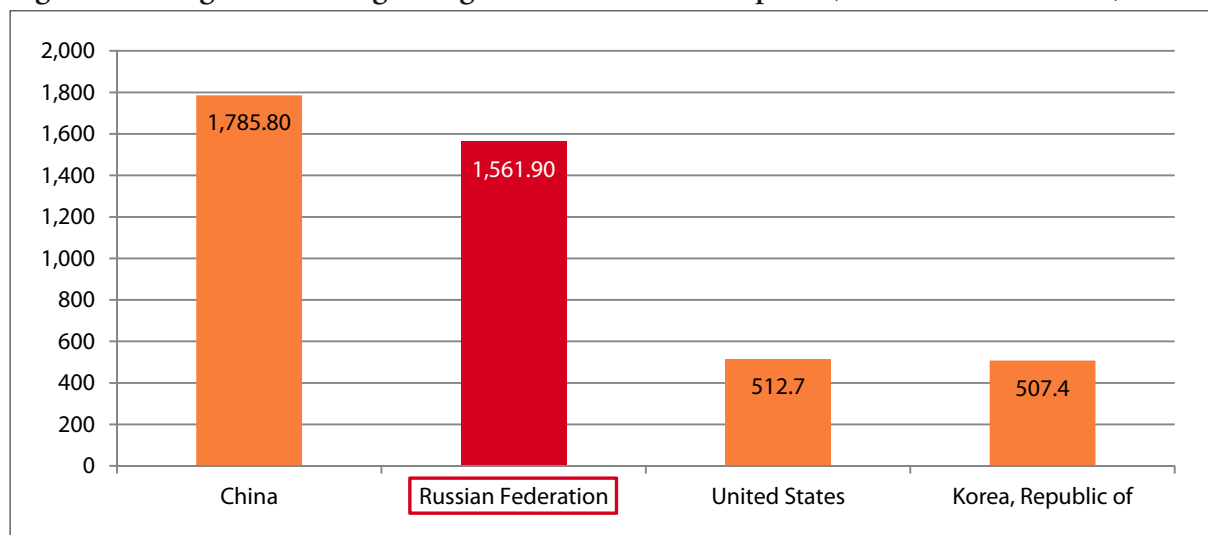
Mongolia's Trade with Russia

Figure 1: Mongolia's Leading Foreign Trade Partners – Exports (2013, mln. US dollars)



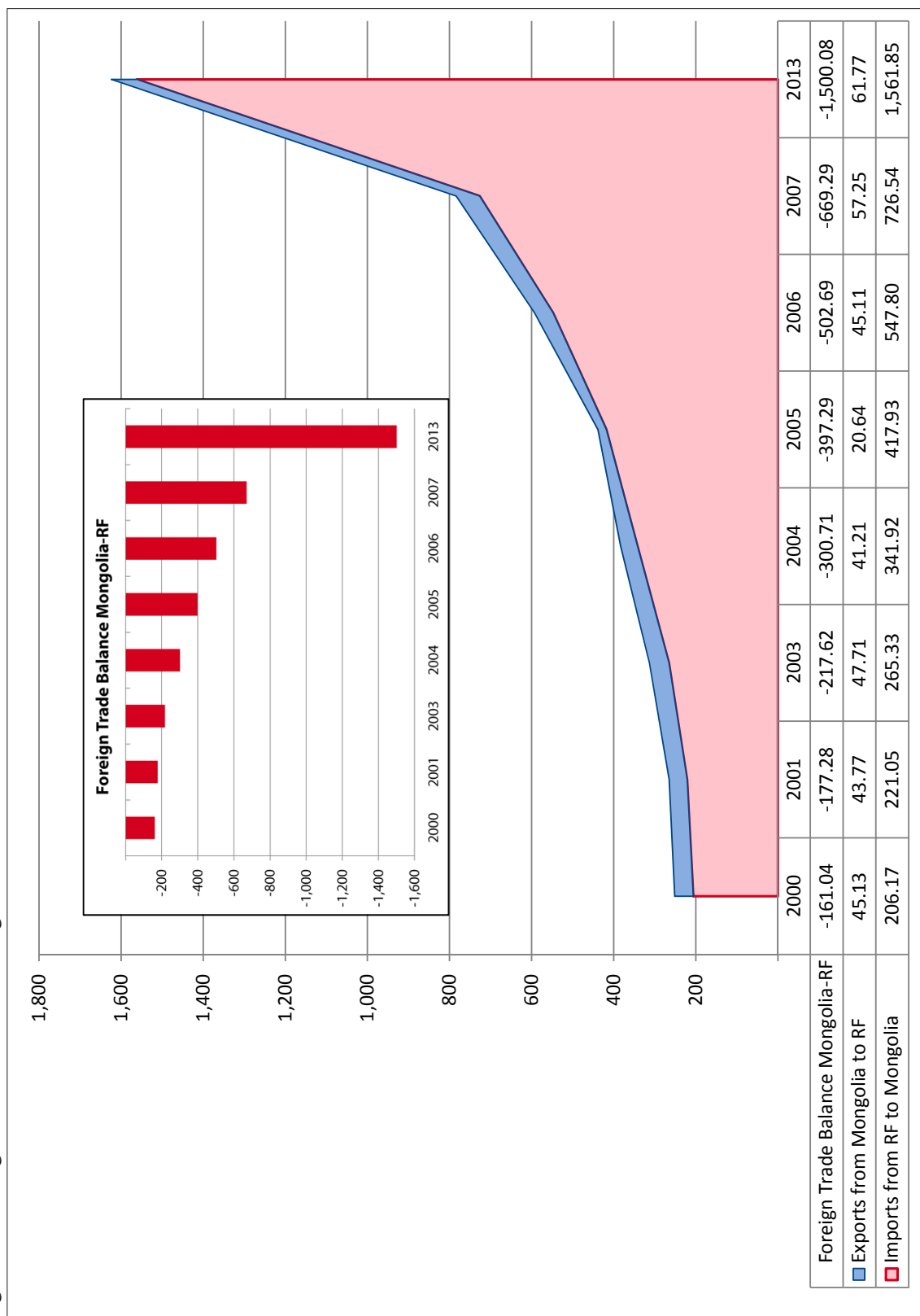
Source: World Trade Organization (WTO) International Trade and Market Access Data <http://www.wto.org/english/res_e/statis_e/statis_bis_e.htm>

Figure 2: Mongolia's Leading Foreign Trade Partners – Imports (2013, mln. US dollars)



Source: World Trade Organization (WTO) International Trade and Market Access Data <http://www.wto.org/english/res_e/statis_e/statis_bis_e.htm>

Figure 3: Foreign Trade Balance Mongolia–Russian Federation (RF), 2000–2013 (mln. US dollars)



Source: World Trade Organization (WTO) International Trade and Market Access Data <http://www.wto.org/english/tes_e/statist_bis_e.htm>

ABOUT THE RUSSIAN ANALYTICAL DIGEST

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