

Mongolia's Neighbors Vie for Maximum Role

By [The Moscow Times](#)

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A suburb of the capital Ulan Bator, which is balancing prosperity and ethnic strife brought by Chinese presence. **David Gray**

SOGTTSETSII, Mongolia — After years of testy debate, Mongolia broke ground this spring for a railroad that will haul coal across the pebbled Gobi desert to China, but with one costly condition.

Citing national security, the government ordered the rails be laid 1,520 millimeters apart, Mongolia's standard gauge inherited from the Soviets, which still allows for interconnectivity with Russia.

But the width ensures that the rails cannot connect to China's, which are 85 millimeters closer together. So at the border, either the train undercarriages will need to be changed or the coal transferred to trucks, adding costs in delivering the fuel to Mongolia's biggest customer.

When it comes to China, Mongolia will only go so far and no further.

"This is a political decision," shrugs Battengel Gotov, the tall, boyish-looking chief executive of Mongolian Mining Corporation, which is building the railway from its prized coal mine, a few hours' grinding truck drive north of the Chinese border.

In the world's rush to get rich off China, Mongolia works mightily to ensure that Chinese investment does not become Chinese dominance. It's a balancing act shared by many countries, especially on China's periphery. Mongolia, though, stands out for its vulnerability and determined deflection of Beijing's embrace.

Landlocked and with 2.8 million people spread over an area twice the size of Texas, Mongolia is dwarfed by China, with its 1.3 billion people and the world's second-largest economy.

Fully 90 percent of Mongolia's exports — coal, copper, cashmere and livestock — go to China, which in turn sends machinery, appliances and other consumer goods that account for a third of Mongolian imports.

The rising trade with China now amounts to three-fourths of Mongolia's economy, one of the highest ratios in the world, according to an Associated Press analysis of IMF trade data.

Mongolia's one other neighbor, Russia, remains important, supplying fuel and owning half a mammoth copper mine and half the national railway system, legacies of the 70 years Mongolia spent as a Soviet client state. But China, with its huge population and voracious demand, looms larger than resource-rich, thinly populated Russia.

Global Balance

Mongolia has sought to minimize both Moscow's and Beijing's influence by forging links with other world powers. The fledgling democratic government has contributed troops to UN peacekeeping missions in Sierra Leone and other countries, and to the American war in Iraq. U.S. Secretary of State Hillary Clinton, on a visit in July, praised Mongolia as "an inspiration and a model."

In measures that politicians here say are aimed at China without naming it, Mongolia also caps the number of immigrants allowed from any one country at 0.33 percent of the population, or less than 10,000 people, and restricts the numbers of foreign workers and types of investment.

"We will not be another Africa," said Ganhuyag Ch. Hutagt, a banker and former vice finance minister who wants to turn Mongolia into an international center of finance. "We cannot afford to have one particular nation control our businesses."

From the steppe to the streets of the capital, Ulan Bator, Mongolians evince a distrust of Chinese. The sentiment goes beyond a neo-Nazi fringe that shaves the head of Mongolian women who sleep with Chinese. Almost everyone says China is stealing Mongolia's coal.

When NBA star Dwight Howard appeared at an outdoor promotion for leading mobile phone operator Mobicom in Ulan Bator in 2011, the popular Mongolian rapper Gee warmed up the crowd with his hit "Hujaa," a pejorative term for Chinese.

Unlike neighboring countries from Japan to India, Mongolia has no Chinatowns. The tens of thousands of Chinese workers drawn to Mongolia's mineral boom are rarely seen, living in fenced-off mining camps hidden in the vastness of the Gobi or behind high construction walls at building sites in the capital Ulan Bator. They are told to stay off the streets to avoid being beaten up by youth gangs. The few Chinese restaurants advertise "Asian" food, not Chinese.

Coal country is where Mongolia's balancing act is put to the test. Chinese demand for copper and especially coal has propelled the Mongolian economy to one of the world's fastest growing, making some wealthy and driving down poverty in a still poor country, and China wants a larger share of the resources.

Tsogttsetsii, the county seat closest to Mongolia Mining Corporation's coal mine and the planned railroad, bursts with activity. A new airport and apartment complexes rise out of the empty, tawny Gobi. Trucks full of coking coal veer off a company-built paved road to the Chinese border to avoid potholes, crushing tufts of grasses herds of camel and goats feed on.

Across the Fence

On the Mongolian side of the border squat a few blocky concrete buildings for guards. Across the fence, the Chinese city sprawls and gleams, tangible reminders of how much richer Mongolia might be if fully open to China.

"There are more buildings. There's more construction. It's more developed. The landscape is nicer," said Dizaibadiin Luvsandorj, a gaunt former Buddhist monk-turned-coal hauler who makes the trip every week or so. Still, he doesn't like to stay on the Chinese side, he said, because "food is expensive."

Nowhere else does China's footprint loom so large yet seem so faint. Even in totalitarian, hermetic North Korea, Chinese road-building crews string banners of Chinese characters along the construction sites.

In Cambodia, where trade with China has nearly doubled from 10 percent of GDP in 2006 to 19 percent in 2011, and Chinese investments run from rubber plantations to telecommunications, the government has done Beijing's bidding. It sent back ethnic Uighurs seeking asylum. In July, it squelched an attempt by Southeast Asian allies to use an annual forum to pillory Beijing for its expansive claims to disputed South China Sea islands.

China's presence became so intrusive in Myanmar, also known as Burma, that it incited a backlash. A military-led government counted on China for investment and diplomatic protection during two decades of Western sanctions. Trade with China hovered around 10 percent of GDP, not including widespread smuggling. Chinese companies have been so busily extracting timber, gems, oil and gas that locals complain, "China is using Burma as a supermarket." In the city of Mandalay, a real estate rush by Chinese has priced locals out of the market. Alarmed by the onslaught and the outcry, the government moved away from Beijing last year, taking steps toward democracy.

Mongolians have worried about being swallowed by China at least since Genghis Khan's

Mongol conquerors swept across much of Asia in the 13th century. Wanting a written language to unite Mongol tribes, he turned to a Turkic people, the Uighurs, to develop a script, and not to China, whose character-based language was used in Korea, Japan and Vietnam.

Chinese came to dominate commerce and comprised about 10 percent of Mongolia's 1 million population after it was absorbed into the last Chinese dynasty, the Qing, set up by another group of horseback warriors, the Manchus. Purges, first by a murderous White Russian general and his motley army and then in the 1960s and '70s by Mongolia's Soviet-backed government, killed or drove off the remaining Chinese.

After peacefully shedding communist rule, Mongolia searched for ways to shake off its dependence on Moscow and keep Beijing at bay.

"It's an identity problem we Mongolians have not to be drawn into that big melting pot" of China, said Col. Munkh-Ochir Dorjjugder, director of defense studies at National Defense University and a former head of analysis for Mongolia's intelligence agency. "This tiny tribe, this tiny group that has survived all this time now wants to preserve what we have."

Third Neighbor

To do so, they crafted a plan for outreach to major global players; they called it the "third neighbor" policy, taking a throwaway phrase U.S. Secretary of State James Baker used on an early bridge-building trip in 1990.

Beyond sending troops to Iraq and Afghanistan and offering an air base after September 11 to court the U.S., Mongolia has drawn in Japan as a key investor, the European Union for guidance on development and even faraway NATO as a security partner. The approach has been enshrined in a national security strategy.

Amid the current China-fueled rush for resources, the strategy identifies Mongolia's mineral wealth as a security Achilles' heel, citing the risk of "turning into a raw materials appendage to other countries." As part of that, China and Russia are each limited to a third of Mongolia's total foreign investment.

The government has kept foreign companies bidding to mine off-balance, drawing in U.S., Japanese, British as well as Chinese and other firms so that no one dominates. A \$500 million low-interest loan from China for development projects sits untouched, because the government worries Beijing wants to use it to force mining concessions.

When the government-run Aluminum Corp. of China, known as Chalco, tried to take a controlling stake in a South Gobi coal mine near the Chinese border by buying shares from other foreign investors, parliament hurriedly passed a law this summer to stop it. Chalco dropped its bid.

By requiring Mongolia Mining, a private company listed in Hong Kong, to use a different railway gauge than China, the government is adding \$2 to \$4 in costs to every ton of coal, or about \$120 million each year. The railroad was debated for more than two years in parliament. A transportation minister and other powerful politicians argued that the railway should first connect with existing tracks to Russia.

In a compromise, both are being built, though Russia doesn't need the coal and its nearest port is 4,000 kilometers away. The coal could be shipped via the port to Japan or South Korea, but the trip would add \$100 to every ton.

"Mongolia's mining fever is driven by Chinese consumption," said mining company CEO Battsetseg. On the wall of his 16th-story corner office in the center of Mongolia's capital hangs a map of the northeastern China cities, railways and ports his company wants to tap into. "We have two big superpowers as neighbors. Virtually, we have one customer."

Even in the coal belt, where the prosperity of the China boom is most evident, the China trade is unpopular.

Myadagmaagiin Zolzaya, a retired carpenter and herder, left the pasturelands to live in a traditional round tent known as a "ger" in one of the neighborhoods springing up on the fringes of Dalanzadgad.

The city, near where American explorer Roy Chapman Andrews made his much-heralded discovery of dinosaur eggs in the 1920s, is now Mongolia's richest because it's a staging ground for Tavan Tolgoi, a prized deposit estimated to hold 6.4 billion tons of coal, enough to meet Chinese demand for centuries.

Myadagmaagiin left his goats and sheep to his eldest son and followed his other children to the fast-growing city, where they found work: three sons in construction and his daughter as a cook.

Now, while looking after his grandchildren, the balding 58-year-old Myadagmaagiin fumes about the mines, the environmental damage and the throngs of Chinese workers they have attracted. Like many across Mongolia, he knows that a state-owned mining company is selling China coal at below international market prices, a fact repeated endlessly on the country's independent but highly partisan TV stations.

The mining company agreed to a relatively low price of \$70 a ton in return for an upfront payment of \$250 million that it used to develop the mine.

"Mongolians should get the jobs in Mongolia, and the benefits should go to Mongolia, not the Chinese. They will take the wealth and leave a big hole," he said.

Money is spilling out of the South Gobi, funding businesses and creating jobs elsewhere in the country. If growth holds, economists project that in a few years every able-bodied Mongolian capable of holding a job will likely be able to find one. Full employment means that Mongolia must import labor to keep growing. China is the handiest source.

In its desire for coal, Beijing has treaded carefully against Mongolia's pushback. In the pre-boom days of 2002, Beijing blocked freight trains from entering China for two days when the Dalai Lama, the exiled Tibetan leader reviled by the communist government, came to preach to Mongolian Buddhists. In November 2011, the Dalai Lama returned, and Beijing protested in words only. It did not cancel long scheduled Cabinet-level meetings.

The Dalai Lama preached in a new 4,000-seat sports arena in Ulan Bator. It was built and donated by China.

n Russia and Mongolia are forming a working group on subsurface resource use, the Russian Natural Resources Ministry said following a meeting of an inter-governmental commission this week, Interfax reported. The working group will hold its first meeting during the first half of the year.

The ministry said the countries were interested in implementing practical projects in the field of geology and mineral development, involving Russia geological research and development institutes and the state-owned Russian Geology corporation. The countries also agreed to step up cooperation in forestry and noted that the environmental risks of commerce in the catchments basin of Lake Baikal should be assessed.

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