

HOW SHOULD THE MONGOLIAN GOVERNMENT KEEP BALANCE
BETWEEN MAINTAINING ITS NATIONAL SECURITY
AND PURSUING ECONOMIC BENEFITS?

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by

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ABSTRACT

HOW SHOULD THE MONGOLIAN GOVERNMENT KEEP BALANCE BETWEEN MAINTAINING ITS NATIONAL SECURITY AND PURSUING ECONOMIC BENEFITS? by Major Munkhbayar Bayarsaikhan, 86 pages.

A major driver of Mongolia's security directly relates to its two neighbors, Russia and China, due to its unique geopolitical existence that locates it between two large, powerful states. Within a small state security framework, Mongolia maintains friendly relations with these, its neighbors, through the "Good Neighbor Policy." Additionally, to counter their influence, Mongolia adopted the "Third Neighbor Policy" to attract the economic interest and organizations' participation of other countries. However, China's BRI presents a significant risk of causing imbalance. Therefore, Mongolian participation in BRI should be questioned. The aim of this research paper is to examine the issues based on other countries' cases and determine if potential risk outweighs benefits from China under BRI.

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ACRONYMS

ASEAN	Association of Southeast Asian Nations
AIIB	Asian Infrastructure Investment Bank
BCIM	Bangladesh-China-India-Myanmar
BRI	Belt and Road Initiative
CDB	China Development Bank
CEIB	China's Export-Import Bank
CPEC	China–Pakistan Economic Corridor
FDI	Foreign Direct Investment
FOCAC	China-Africa Cooperation
GDP	Gross Domestic Product
IMF	International Monetary Fund
NBR	National Bureau of Asian Research
MOU	Memorandum of Understanding
MSR	Maritime Silk Road
NDRC	National Development and Reform Commission
OBOR	One Belt and One Road
RUSI	Royal United Service Institute
SCO	Shanghai Co-operation Organization
SREB	Silk Road Economic Belt
USSR	Union of Soviet Socialist Republics

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CHAPTER 1

INTRODUCTION

Research Purpose

When China's policy makers introduced the Belt and Road Initiative (BRI) to the world, most of the other affected countries in Asia, Europe, and Africa with foot prints on the ancient Silk Road agreed to join BRI. These countries see BRI as providing economic advantages to promote mutually beneficial cooperation for every participant as China proposed. Some states are carefully observing from the outside, however. Despite China's ambitious vision and promises of a win-win project, there are already subsequent concerns. Therefore, it is crucial to seek whether there are hidden strategic objectives beyond China's propaganda. Even though Mongolia has signed an agreement with China regarding BRI, it is still determining to what extent it will participate.

The government of Mongolia is currently facing a critical decision regarding participation in BRI. As such, Mongolia is highly vulnerable to China's rising influence. Tristan Kenderdine, the research director at Future Risk, notes China's BRI is driving pressure on Mongolia to resolve a strategic dilemma. Mongolia is attempting to reduce its political and economic dependence on China through its Third Neighbor Policy.¹ The

¹ Tristan Kenderdine, "Mongolia Gets On Board with China's Belt and Road Initiative," Eurasianet, 7 July 2017, accessed 9 December 2018, <https://eurasianet.org/mongolia-gets-on-board-with-chinas-belt-and-road-initiative>.

idea of this policy is to strengthen Mongolian sovereignty by developing bilateral and multilateral relations and cooperation with developed countries.²

In February 2011, Mongolia adopted a new foreign policy concept. The crux of the concept is that Mongolia will seek to avoid becoming overly reliant or dependent on any particular country.³ Nevertheless, Mongolia's economy and policy are still heavily dependent upon China. Tristan also mentioned that, "At present, China is by far Mongolia's largest trading partner, accounting for 90 percent of Mongolian exports and over 30 percent of its imports, and, as Mongolia's balance-of-payments crisis last year demonstrated, this economic arrangement invites instability, rather than protecting from it."⁴ Exclusively, in 2014, Mongolia agreed with China and Russia and signed to cooperate on infrastructure building and customs clearance procedures.⁵ Furthermore, under the BRI umbrella, China has been investing in Mongolia in many different areas as agreed to in a series of the two governments' official meetings.

However, BRI is not a perfect fit with Mongolia's current economic priorities. Mongolia wants to diversify the country's economy by building a manufacturing base

² Ministry of Foreign Affairs of Mongolia, *Third Neighbor Policy, Mongolian Foreign Concept Policy*, 2018, accessed 25 April 2019, http://www.mfa.gov.mn/?page_id=16273.

³ Ibid.

⁴ Kenderdine, "Mongolia Gets On Board with China's Belt and Road Initiative."

⁵ UB Post, "Mongolia, Russia and China Approve Mid-Term Development Road Map for Tripartite Cooperation," 16 July 2015, accessed 25 April 2019, <http://ubpost.mongolnews.mn/?p=15296>. See Also Liangyu, "China, Russia, Mongolia Vow to Strengthen Cooperation," Xinhua Net, 10 June 2018, accessed 25 April 2019, http://www.xinhuanet.com/english/2018-06/10/c_137243022.htm.

and reducing its near total dependence on the exports of natural resources, but it also wants to expand its number of trade partners.

In summary, a significant driver of Mongolia's security directly relates to its two neighbors, Russia and China, due to its unique geopolitical existence that locates it between two large, powerful states. Within a small state security framework, Mongolia maintains friendly relations with these, its neighbors, through the "Good Neighbor Policy." Additionally, to counter their influence, Mongolia adopted the "Third Neighbor Policy" to attract the economic interest and organizations' participation of other countries. However, China's BRI presents a significant risk of causing imbalance. Therefore, Mongolian participation in BRI should be questioned. The aim of this research paper is to examine the issues based on other countries' cases and determine if potential risk outweighs benefits from China under BRI.

Research Question

Mongolian officials have agreed to receive China's investment through BRI in order to help fill the economic gap in Mongolia. Furthermore, this acceptance should consider the possible future security challenges it may cause and insufficiently applies current analysis and expert opinion based on other countries' experiences with China and BRI. The other concern is that there are few research products or studies that have been conducted to estimate the potential risk that could affect the Mongolian National security in terms of Mongolian participation in BRI. Additionally, these challenges could affect the bilateral relationship between the two governments. It is essential to examine comprehensively the implementation of BRI based on other nations' lessons learned rather than highlight simply BRI economic advantages. In contrast, some countries with

small economies like Mongolia, including Tajikistan and Sri-Lanka, have already faced issues with their national security from joining BRI. Therefore, it is essential to examine BRI's impact of implementation on a developing country like Mongolia, which has a relatively small economy.

Western experts and analysts have been arguing essentially the assumption that BRI is both a tool China is using for compelling the One China policy and further expanding China's influence throughout the world. This thesis will argue that Mongolia should be cautious of the possible future consequences of China's investment, including a systemic debt problem that could influence the national security of Mongolia. Moreover, it is critical that the government of Mongolia should conduct preliminary analysis by communicating with experts at the national level, with a goal to develop a contingency plan for investment under BRI. Consequently, the primary question of the study is how should the Mongolian government keep balance between maintaining its national security and pursuing economic benefits? Secondary questions include: 1. How did BRI affect other nations? 2. How could BRI potentially affect Mongolian national security/sovereignty? 3. How could Mongolia avoid possible future negative consequences of BRI participating?

Background

In 1990, a year before the Union of Soviet Socialist Republics (USSR) system collapsed, democratic revolution took place in Mongolia. As a result, Mongolia rejected socialism and a centrally planned economic system and adopted a new constitution that promotes a democratic system and respects human rights and a free market system. At that time, Mongolian foreign policy fundamentally changed, with Mongolia pursuing an

open and non-aligned policy. While following a policy of creating realistic interest from developed countries, Mongolia seeks to avoid becoming overly reliant or dependent on any particular country.

In 2011, the Mongolian foreign policy concept was adopted by the resolution of the State Ikh Hural of Mongolia. It states, "...part of the political foreign policy of Mongolia" is related to the "West, East, and South, including the United States, Japan, the EU, India, South Korea and Turkey." To extend partnership and cooperation within the framework of "Third neighbor" policy, Mongolia is actively pursuing bilateral and multilateral relations and cooperation with the developed countries in the political, economic, defense, cultural, and humanitarian sectors.

According to the National Security Concept of Mongolia, political and diplomatic actions should be intended to ensure its independence and sovereignty. Furthermore, Mongolia is developing a multi-pillared foreign policy directed towards building active relationships and cooperation with foreign states and international institutions. In addition, Mongolia is implementing a consistent peacemaking foreign policy coupled with active support for international community efforts aimed at strengthening peace and security. Mongolia has a relatively small population with a vast territory, which is landlocked between the world leading economies and military powers of Russia and China. Mongolia is developing "Good Neighbor" policy of friendly relations and wide-ranging cooperation with its permanent neighbors of China and Russia.⁶

⁶ Ministry of Foreign Affairs of Mongolia, "In Mongolia and Neighboring Countries," 16 September 2015, accessed 25 April 2019, http://www.mfa.gov.mn/?page_id=16273.

Mongolia shares a 4,700 km border with China, and the two countries have had complicated relations throughout their history. After the People's Republic of China recognized Mongolia's independence, a diplomatic relationship was established between Mongolia and China in 1949.⁷ In addition, both countries opened their embassies in Ulaanbaatar and Beijing in 1950. However, China-Mongolia relations remained tense during the Russian communist regime. Subsequently, Mongolia also began asserting a more independent policy and pursued more friendly ties with China.⁸ Afterward, China-Mongolia's bilateral relations began to improve. In 1994, a treaty of friendship and cooperation was signed between the heads of Mongolia's and China's governments.⁹ This treaty creates fundamental principles for subsequent agreements that are the basis of the current relationship between both nations, including the mutual respect for sovereignty, independence, and territorial integrity.

In 2011, Xinhua, China's official state-run press agency reported, "China and Mongolia on Thursday agreed to upgrade bilateral ties to a strategic partnership level and bolster economic cooperation."¹⁰ Additionally, in 2014, Mongolia and China signed a

⁷ Library of Congress, "Mongolian-Chinese Relations," Country Studies, WebCite, 05 September 2013, accessed 25 April 2019, <https://www.webcitation.org/6JPIL1zGk?Url=http://Lcweb2.Loc.Gov/Cgi-Bin/Query/r?Frd/Cstdy:%40field%28DOCID%2Bmn0146%29>.

⁸ Ibid.

⁹ U.S. Department of State, "Mongolia," 20 January 2009, accessed 25 April 2019, <https://2009-2017.state.gov/outofdate/bgn/mongolia/23760.htm>

¹⁰ An Lu, "China, Mongolia Forge Strategic Partnership Vow to Enhance Economic Ties," *Xinhua*, 16 June 2011, accessed 25 April 2019, http://www.gov.cn/english/2011-06/16/content_1886169.htm.

document which upgraded the level of its partnership from Strategic to the level of a Comprehensive Strategic Partnership. During this event, both sides signed a total of 26 agreements in terms of trade, infrastructure, energy, and financial cooperation.¹¹

During this period, China became Mongolia's biggest trade partner and source of foreign investment. According to the official web page of the Ministry of Foreign Affairs of Mongolia, “In the period starting from 1990 to 2013 the volume of Chinese investments in Mongolia reached 3.8 billion USD, which accounts for 26.4% of total foreign direct investments in Mongolia.”¹² Cooperation with the Chinese expanded Mongolia’s economic sector, especially mining and oil industries.

Since adopting a free market system, the Mongolian government has been struggling to develop an industry based economy. However, Mongolia’s economy is still heavily dependent on livestock, agriculture, and mining exports that are raw material oriented. An example is the mining industry. There are more than 8,000 deposits with more than 440 types of minerals, including gold, copper, molybdenum, lead, iron, coal, fluorspar, salt, semi-precious stones, and crystal.¹³ The Mongolian economist, Batchuluun, stated that the mining industry of Mongolia is responsible for one-fifth of

¹¹ Department of Neighboring Countries, “Mongolia-China Relations,” Ministry of Foreign Affairs of Mongolia, 15 April 2015, accessed 25 April 2019, <http://www.mfa.gov.mn/?p=29545&lang=en>.

¹² Ibid.

¹³ M.A.D. Urban, “The Mongolian Real State Report,” accessed 30 November 2018, <http://madresearch.com/mongolia/macroeconomicsmongolia/mining-sector-mongolia/>.

Mongolia's Gross Domestic Product (GDP), two-thirds of its industrial output, three-quarters of export earnings, and one-half of public revenue.¹⁴

Even though the government of Mongolia is making an effort to build a multi-pillared economic structure that is able to self-sustain and compete in the world, China has been Mongolia's largest trading partner and foreign investor over the last 15 years. The Ministry of Foreign Affairs of Mongolia stated that, in 2014, Mongolia's trade with China accounted for 61.7% of Mongolia's total foreign trade with total trade turnover of around 6.8 billion USD. Mongolia's export to China accounted for almost 80% of the country's total export and its import from China accounted for 30% of Mongolia's total import.¹⁵

Mongolia exports most of its natural resources and oil to China rather than exporting to other countries with a fair price because of geopolitical location. Therefore, the Mongolian government seeks another way to export its commodities to third party countries. As a result, Mongolia's approach to joining BRI will not only focus on exporting minerals, but also on developing vital infrastructure and the Mongolian economy as a multi-pillared structure. Economic development is paramount to Mongolia; however, it must also consider national security more broadly when making major decisions.

¹⁴ Amrita Batchuluun and Joung Yol Lin, "An Analysis of Mining Sector Economics in Mongolia," *Global Journal of Business Research* 4, no. 4 (2010): 91-93

¹⁵ Department of Neighboring Countries, "Mongolia-China Relations."

Assumptions

Despite what China advertises, it is still unclear what China's actual goal is beyond BRI. No blueprint or action plan has been introduced by China. Indeed, currently, some countries welcome only the idea of BRI, which is to bring the opportunity of spreading wealth and prosperity to all participant countries, but are unsure of the requirements and risks that it could bring in future.

An Economist magazine article, titled Planet China, states "China says anyone can join in. Countries such as Azerbaijan and Georgia, which stand to benefit immensely from better connections to the world, are wildly enthusiastic."¹⁶ However, many nations are captured under BRI's broad banner.

There has been some confusion among the states as to exactly what BRI represents. As a result, some countries are even exiting BRI. The major issue causing their departure is the repayment of China's loans that often affects their national economic stability. Furthermore, there are some growing suspicions.

For example, some countries like Sri-Lanka and Tajikistan question whether BRI is actually only a tool to assist Chinese expansionism and, if in doing so, it encourages corruption and criminal activities. Most of these underdeveloped states are considered politically fragile and economically unstable. These countries are rich with natural resources and have vast territory for agriculture, however, all of which China needs as demanded by its growing population and industries.

¹⁶ Luca D'Urbino, "Planet China: What to Make of the Belt and Road Initiative," *The Economist*, 26 July 2018), 7, accessed 5 June 2019, <https://www.economist.com/leaders/2018/07/26/chinas-belt-and-road-plans-are-to-be-welcomed-and-worried-about>.

Obviously, realities are likely to be more complex than China's declaration of BRI's concept of win-win. During implementation of BRI, in many of the cases, the countries involved faced challenges with repayment of Chinese loans that have been extended for the projects in their nations. For instance, Sri Lanka lost its Hambantota port to China's government owned company.¹⁷ In addition, Maldives canceled some BRI projects because of \$ 1.4 billion of debt, of which 75% is due to BRI projects.¹⁸ Malaysia and Sierra Leone are also slowing down BRI, even canceling some of the projects because of debt distress. Corruption is also a concern. For example, Maldives, Malaysian, and Sierra Leone leaders blamed their predecessors for corruption related to BRI. This thesis will examine these cases in Chapter 4.

Debt distress is a major concern for developing countries. Currently, Mongolia is one of these developing countries with a largely poor population, a vulnerable economy, political instability, and high-level corruption. Scholars recognize that Mongolia might face a significantly increased risk of an overwhelming debt in the future. For instance, John Hurley, Scott Morris, and Gailyn Portelance, fellows with The Center for Global Development, argue that Mongolia is in a particularly difficult position because of its planned future BRI related financing¹⁹

¹⁷ D'Urbino, "Planet China: What to Make of the Belt and Road Initiative."

¹⁸ Roy Dipanjan Chaudhury, "President-elect Ibu Solih may look at halting BRI projects in Maldives," *The Economic Times*, 19 October 2018, accessed 23 May 2019, <https://economictimes.indiatimes.com/news/international/world-news/president-elect-ibu-solih-may-look-at-halting-bri-projects-in-maldives/articleshow/66278481.cms>.

¹⁹ John Hurley, Scott Morris, and Gailyn Portelance, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective," (CGD Policy Paper, Center for Global Development, Washington, DC, 2018), 1, accessed 9 May 2019,

Kenderdine states, “That Beijing expects \$30 billion in credit to BRI-related projects over the next five to ten years is true, with total potential investment reaching as high as \$ 90 billion by 2035; then, the prospect of a Mongolia default is extremely high, regardless of the concessional nature of the financing.”²⁰

As previously stated, an assumption of this thesis is that China constantly seeks to feed its heavy industries with raw materials and BRI deals help to fulfil this need. Therefore, China could pressure Mongolia in various ways, including economically with long term loans under BRI as mentioned above and politically through cooperation with mining as described below.

In 2014, Mongolia and China upgraded the level of their partnership from Strategic to the level of a Comprehensive Strategic Partnership. Mongolian President Ts. Elbegdorj and China’s president Xi signed the Comprehensive Strategic Partnership document, which is comprised of a total of 26 agreements. This document focuses on trade, infrastructure, energy, and financial cooperation.²¹

Journalist L. Munkhbayasgalan criticizes this document, especially the second article that states, “Mongolia has been developing intensive cooperation with China in the mining, energy, and infrastructure sectors. In particular, the two countries significantly

<https://www.cgdev.org/publication/examining-debt-implications-belt-and-roadinitiative-policy-perspective>.

²⁰ Kenderdine, “Mongolia Gets On Board with China’s Belt and Road Initiative.”

²¹ Department of Neighboring Countries, “Mongolia-China Relations.”

enhance and expand cooperation in the mining sector.”²² She argues that Mongolian government is receiving more pressure to allow China’s government owned firms to operate in Mongolia. In addition, she claims that some politicians are heavily involved in corruption related to mining.²³

One of the assumptions of this thesis is that BRI would encourage even more corruption of local politicians. Most of the corruption related scandals in Mongolia are mining related. Mongolia has been fighting against corruption, but it is still spreading throughout the country. According to the 2016 Transparency International’s Corruption perception index, Mongolia was ranked at 87th out of 176 countries.²⁴ Within one year, the Mongolian index score significantly increased to 103 out of 180 countries in 2017.²⁵ Currently, the Reuters’ correspondent Munkhchimeg Davaasharav reported that approximately 25000 Mongolians protested about a long-running corruption case related to an allegation against Parliamentary speaker M. Enkhbold and other political figures’ attempt to raise 60 billion tugrik (\$23 million) by selling off government positions.²⁶

²² L. Munkhbayasgalan, “The Manan's Plan to Plunder Mongolia,” YouTube, video, 28 January 2019, accessed 14 May 2019, <https://www.youtube.com/watch?v=7BkFHF8YsYo>.

²³ Ibid

²⁴ Transparency International, “Corruption Perceptions Index 2016,” 25 January 2017, accessed 14 May 2019, https://www.transparency.org/News/Feature/Corruption_perceptions_index_2016.

²⁵ Transparency International, “Corruption Perceptions Index 2017,” 21 February 2018, accessed 14 May 2019, https://www.transparency.org/News/Feature/Corruption_perceptions_index_2017.

²⁶ Munkhchimeg Davaasharav, “Mongolians Protest against Corruption as Temperature Plunges,” *Reuters*, 27 December 2018, accessed 14 May 2019,

Another major concern in Asian countries, especially with China's neighbors, is the fear of China "Sinophobia." The processes of globalization, migration, and diversification of the people are normal in the modern world. Nevertheless, increased Chinese migration into small states can have significant effects.

The senior researchers of the Central Asia-Caucasus Institute, Marlene Laruelle and Sebastien Peyrouse, have examined Sinophobia in the central Asian countries, particularly in Kyrgyzstan and Kazakhstan, where it is arguably most prevalent although Tajikistan has also been affected. Based on the interview, they feared that "Chinese workers come to Central Asia with the aim of settling and marrying local women, and that the Chinese citizens sent to work on large infrastructure projects are actually convicts, leading to security risks."²⁷ This fear is natural taking into consideration China's expanding role in the region. This is not a new phenomenon in Mongolia due to its history with invaders, such as the Manchu Qing Dynasty.²⁸ Since that time, China had claimed Mongolia as part of its territory until the mid-twentieth century. Under Soviet pressure, China accepted Mongolian independence in 1949.

<https://www.reuters.com/article/us-mongolia-politics/mongolians-protest-against-corruption-as-temperature-plunges-idUSKCN1OQ0RG>.

²⁷ Marlene Laruelle and Sebastien Peyrouse, *The Chinese Question in Central Asia; Domestic Order, Social Change and the Chinese Factor* (London: Hurst, 27 December 2012).

²⁸ Peter Perdue, "The Expansion of the Qing Dynasty of China and the Zunghar Mongol State," Oxford Research Encyclopedias, June 2017, accessed 1 May 2019, <https://oxfordre.com/asianhistory/view/10.1093/acrefore/9780190277727.001.0001/acrefore-9780190277727-e-7>.

Historically, Mongolian-Chinese relations have suffered because of China's claims to “lost territory” and Mongolia's fear of China's expansion because of overpopulation.²⁹ The logical concern is about the possibility of China’s overwhelming dominance over neighboring states. China’s policy related to BRI could give them leverage in this regard. Research fellows, Raffaello Pantucchi and Sarah Lain, noted that the Chinese often require the other countries to use Chinese banks and workers as well.³⁰ A logical fear is that of those migrating especially to Mongolia because of BRI from China will settle there and gain citizenship. This could potentially threaten national security by changing demographics. Mongolia’s three million people are highly vulnerable to China’s rapidly growing population which is 1.42 billion, based on United Nations projections 2019.³¹

In fact, this migration of Chinese laborers would threaten the Mongolian local workers with displacement. According to Bayarsaikhan, head of the National Development Agency, “total investment was 17 billion USD in 1990-2017. In Mongolia there are 13,696 foreign invested enterprises, of which about 50% or 6,640 are investment companies in China. From 1995 to 2004, China invested 5.1 billion USD from Mongolia’s total assets, 27.2% of the total investment.”³² Laruelle and Peyrouse

²⁹ Library of Congress, “Mongolian-Chinese Relations.”

³⁰ Pantucci and Lain, *China’s Eurasian Pivot: The Silk Road Economic Belt*, 3.

³¹ World Population Review, “China Population 2019,” 02 April 2019, accessed 27 April 2019, <http://worldpopulationreview.com/countries/china-population/>.

³² Mongolian National Chamber of Commerce and Industry, “Introduction to Investment Property,” 27 September 2017, accessed 18 May 2019,

have noted that Sinophobia has often been an expression of the concern that increased Chinese migration will threaten the livelihood of local workers.³³ In addition, Pantucchi and Lain fear that China is using commercial deals as a cover to take over Central Asian territory.³⁴ Historically, most of the Chinese people who work in Mongolia are less educated. These workers often commit crime. In addition, criticism occurs in Mongolia about China's companies in terms of causing environmental pollution without repairing it. Therefore, there have been often been protests of locals, including nomadic people in Mongolia, about miners and that BRI construction is damaging the environment and roads. For example, PetroChina Daqing Tamsag, China's government owned Oil Company that operates in Mongolia, was condemned for not paying taxes and not rehabilitating environment after damaging it.³⁵

Definitions

In general, Mongolians have a growing suspicion of the true objective of China's BRI program. However, the public does not have enough actual information related to BRI and its background. Therefore, in this section, this thesis introduces in-depth information of China's perspective about BRI and its action plan based on China's

https://mongolchamber.mn/mn/newsDetail/486?fbclid=IwAR1AlfUyupKM-q4TdUNppTPcRCaOWaRTNjT76wOp4mQotvdw_M9EQMuGJzM.

³³ Laruelle and Peyrouse, *The Chinese Question in Central Asia; Domestic Order, Social Change and the Chinese Factor*.

³⁴ Pantucci and Lain, *China's Eurasian Pivot: The Silk Road Economic Belt*, 53.

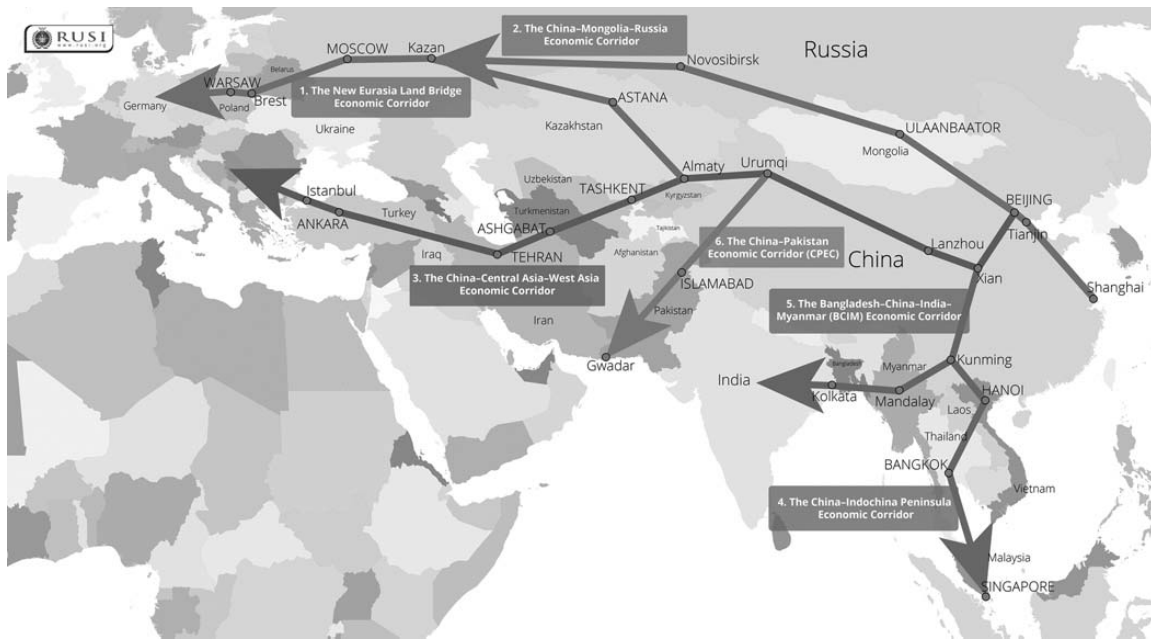
³⁵ M. Unurzul, "PetroChina Daqing Tamsag assigned to cooperate with local administration," *Montsame, Mongolian News Agency*, 08 May 2018, accessed 18 February 2019, <https://montsame.mn/en/read/134964>.

government document and other researchers' assessments. Furthermore, this thesis describes information related specifically to Mongolian connection to BRI and the potential influences on Mongolian national security.

“China’s Belt and Road Initiative (BRI) involves billions of dollars’ worth of projects in more than 100 countries. The project started six years ago, primarily in Southeast Asia, and continues to expand into Europe and beyond.”³⁶ BRI has become a pillar of China’s foreign policy. President Xi Jinping said that, in 2013, initially the “Silk Road Economic Belt (SREB)” and “21st Century Maritime Silk Road (MSR)” were introduced as initiatives of cooperative building. The “Digital Silk Road” and “Space Silk Road” were recently introduced, as well. Raffaello Pantucci and Sarah Lain explained the change of the name from One Belt and One Road (OBOR) to BRI was useful to reflect the reality that there was more than one route in both directions, and the somewhat paradoxical fact that the “road” actually described sea-lanes.³⁷

³⁶ Aarthi Swaminathan, “7 Problems Created by China's New Silk Road,” *Yahoo Finance*, 25 April 2019, accessed 30 April 2019, <https://finance.yahoo.com/news/problems-created-by-chinas-new-silk-road-174812314.html>.

³⁷ Pantucci and Lain, *China’s Eurasian Pivot: The Silk Road Economic Belt*, 10.



Six Land Corridors that Would Potentially Make Up the Silk Road Economic Belt

Source: Raffaello Pantucci and Sarah Lain, *China's Eurasian Pivot: The Silk Road Economic Belt* (Philadelphia, PA: Taylor & Francis, 2017), 6.

China is emphasizing that this project will bring stability to the region. In March 2015, during a press conference at the Third Session of the Twelfth National People's Congress, Chinese Foreign Minister, Wang Yi, noted that “China’s foreign policy agenda consisted of “one main focus,” the Belt and Road Initiative, and “two themes,” peace and development.”³⁸

³⁸ Ministry of Foreign Affairs of the People’s Republic of China, “Foreign Minister Wang Yi Meets the Press,” 08 March 2015, accessed 18 May 2019, https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1243662.shtml.

In 2015, the government of China published its plan: the “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road.”³⁹ In order to avoid misunderstanding and confusing terminology, this thesis will use and refer to this document. Additionally, this thesis will only examine a general SREB route which has been presented to the public.

China’s government defines BRI as a systematic project which should be jointly built through consultation to meet the interests of all, and that efforts should be made to integrate the development strategies of the countries along the Belt and Road. Additionally, China proposes that the framework of BRI is a way for win-win cooperation that encourages economic prosperity and friendship to all nations through developing economic cooperation, and strengthens exchanges..⁴⁰

The National Bureau of Asian Researcher, Nadege Rolland, states that a “21st-century version of the Silk Road will take shape around a vast network of transportation (railways, roads, and port facilities), energy, and telecommunication infrastructure, linking Europe and Africa to Asia and accompanied by strengthened monetary cooperation and increased people to people exchanges.”⁴¹

³⁹ National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce, People’s Republic of China, *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road* (with State Council Authorization, 28 March 2015), accessed 18 May 2019, http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html.

⁴⁰ Ibid.

⁴¹ Rolland Nadège, “China’s Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative,” (National Bureau of Asian Research, University of Washington, Seattle, WA, 2017), 2.

However, China's government has not introduced detailed official maps of the project, instead showing only a broad description. Therefore, according to the Xi administration, BRI's vision is to promote the implementation of the initiative and instill vigor and vitality into the ancient Silk Road. The SREB will connect China to Central Asia, Russia, and Europe (the Baltic), "connecting China with the Persian Gulf and the Mediterranean Sea through Central Asia," and link China with Southeast Asia, South Asia, and the Indian Ocean... all this in order to promote mutually beneficial cooperation to a new high and in new forms.⁴²

According to this government, the action plan identifies six economic corridors (see figure 1 for a map of corridors) that will make up the SREB:

The New Eurasia Land Bridge Economic Corridor: a network of transport links between Chinese and European cities, passing through Kazakhstan, Russia, Belarus, and Poland.

The China-Mongolia-Russia Economic Corridor: an agreement to increase trilateral cooperation, combining the SREB, Russia's part of the Eurasia Land Bridge, and Mongolia's Steppe Road project.

The China-Central Asia-West Asia Economic Corridor: commitment to building infrastructure and cooperating on trade, investment, finance, transport, and communication with the five Central Asian states as well as Turkey and Iran (West Asia).

⁴² National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce, People's Republic of China, *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*.

The China-Indochina Peninsula Economic Corridor: commitment to greater infrastructure cooperation between China and the five Indochina peninsula countries: Laos, Vietnam, Thailand, Cambodia, and Myanmar.

The Bangladesh-China-India-Myanmar (BCIM) Economic Corridor: improving connectivity between Kunming and Mandalay, Dakha and Kolkata.

The China-Pakistan Economic Corridor (CPEC).⁴³

Despite all the criticism and suspicion, BRI is making rapid progress and gaining acceptance, not only in its neighborhood but also in the world. Andrew Scobell, Bonny Lin, and other analysts note that this flagship foreign policy initiative was officially launched less than twelve months into Xi's tenure. The Belt and Road Initiative is a critical, longer-term objective as well as a near-term focus; furthermore, it represents China's strategic path for achieving this community in the next thirty or more years.⁴⁴

Morgan Stanley Research stated that, currently, there is a total of 65 countries that have joined it.⁴⁵ Wang Wen, dean of the Chongyang Institute for Financial Studies at

⁴³ China-Britain Business Council and Foreign and Commonwealth Office, *One Belt One Road: A Role for UK Companies in Developing China's New Initiative: New Opportunities in China and Beyond* (London, England: Bressenden Place, September 2015), accessed 19 May 2019, <http://files.chinagoabroad.com/Public/uploads/content/files/201704/OBOR-1-New-Opportunities-in-China-and-Beyond.pdf>.

⁴⁴ Andrew Scobell, Bonny Lin, Howard J. Shatz, Michael Johnson, Larry Hanauer, Michael S. Chase, Astrid Stuth Cevallos, Ivan W. Rasmussen, Arthur Chan, Aaron Strong, Eric Warner, and Logan Ma, *At the Dawn of Belt and Road: China in the Developing World* (Santa Monica, CA: RAND Corporation, 2018), accessed 19 May 2019, https://www.rand.org/pubs/research_reports/RR2273.html.

⁴⁵ Morgan Stanley Research, "Inside China's Plan to Create a Modern Silk Road," 14 March 2018, accessed 19 May 2019, <https://www.morganstanley.com/ideas/china-belt-and-road?cid=222630113:423354023:103766904>.

Renmin University, notes that 25 nations have already signed on the Memorandum of Understanding (MOU) with China regarding both BRI's project of infrastructure construction and investment.

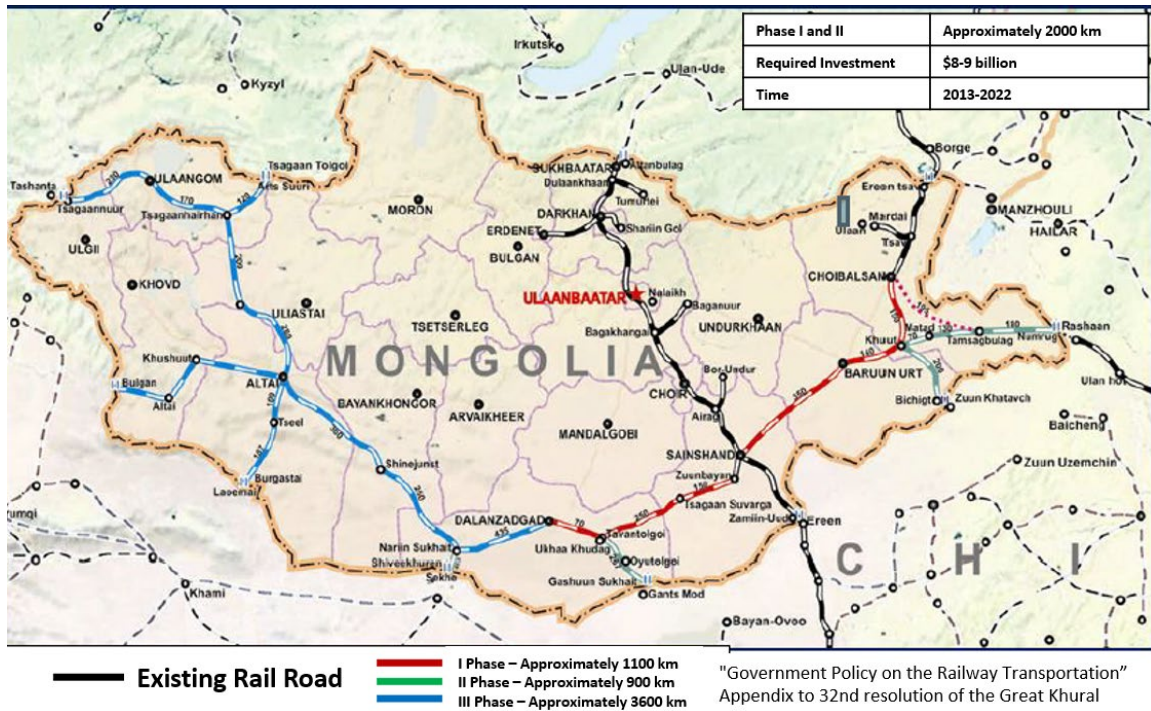
Some of the infrastructure and projects already existed, but are often highlighted under BRI. For example, a train from Chongqing in China to Duisburg, Germany, has been in operation since 2011 as part of the Eurasia Land Bridge Economic Corridor and so is in itself not a new project.⁴⁶ Furthermore, BCIM has been discussed since 1999, and in part of enhancement of CPEC, the road from Kashgar to Karachi Port in Pakistan already exists.⁴⁷

In addition, China puts effort into integrating existing projects through enhancing cooperation by corridor nations. For instance, the China-Mongolia-Russia Economic Corridor (this will be examined extensively in the Chapter 2) was brought in at the SCO summit in Dushanbe in 2014. The trilateral agreement was signed to incorporate the SREB, Russia's renovation of its section of the New Eurasia Land Bridge, and Mongolia's Steppe Road project,⁴⁸ thus legitimizing BRI.

⁴⁶ HKDTC Research, "The Belt and Road Initiative," 3 May 2018, accessed 19 May 2019, <http://china-trade-research.hktdc.com/business-news/article/The-Belt-and-Road-Initiative/The-Belt-and-Road-Initiative/obor/en/1/1X000000/1X0A36B7.htm>.

⁴⁷ Pantucci and Lain, *China's Eurasian Pivot: The Silk Road Economic Belt*, 11.

⁴⁸ HKDTC Research, "The Belt and Road Initiative."



The Mongolian Government Policy on the Railway Transportation

Source: Ikh Khural, *Government Policy on the Railway Transportation*, Appendix to 32nd resolution (Ulaanbaatar, Mongolia).

Scope

The intent of this thesis is to give the reader broad knowledge needed to understand the current Chinese strategic concept regarding BRI, analyze its approach, and evaluate how China BRI shapes other nations. Additionally, it will highlight the history of diplomatic relations between Mongolia and China, and also the current Mongolian Administration's National Security Strategy. The thesis will consider how Mongolia is approaching the dilemma between strategy and economic interest in order to join BRI.

This thesis will study the implementation of BRI in other countries that are connected through the CPEC and MSR, as well as SREB. As a collection of case studies, this thesis will capture the lessons learned from countries in this region including China. It will build on this general foundation to recommend future Mongolian participation in BRI.

The scope of this thesis includes impacts to BRI participating nations, particularly specific nations that received investment from China under BRI. In addition, the focus will be on the China-Mongolia-Russia Economic Corridor that is intended to build and upgrade the land routes. Under this SREB, Chinese investment in Mongolia is outlined by the five aims of the project: policy communication, road connectivity, trade facilitation, monetary circulation, and people-to- people exchanges.

After reviewing BRI and a range of project approaches based on the evidence (materials and international analysts' and experts' studies, including the documents that Chinese government published), this thesis closely analyzes the bilateral agreements of cooperation and mutual understanding between the two countries.

As a result, the aim of this thesis I to identify the potential risk for Mongolia, especially China's lending of money that is associated with BRI, particularly focusing on assessing the probable danger of debt distress to the national security of Mongolia. This paper also seeks to identify possible options of mutual benefit that might bring about successful cooperation. Lastly, this thesis will emphasize the significance of national security matters in order to protect Mongolia from Chinese influence.

Limitations

In general, since 2013, BRI has been studied and well documented in English. However, there are few general studies, source materials, or documents that conduct comprehensive analysis that focus on Mongolian participation in BRI. Furthermore, detailed plans of BRI's implementation in Mongolia are not largely available in public open sources.

Additionally, the Mongolian official documents, experts' research, and analysis materials are published only in the Mongolian language; therefore, some of the references are directly translated by the author. Most Mongolian materials review and explain BRI from an economic benefits perspective and mention only a few of the potential risks. In particular, research about the Mongolian national security perspective and China's investment is rare thus far.

Because, much of the available information is gathered from publications in books as well as the other databases, one concern is that many of the research materials remain unverified, and there is a risk of statistical inaccuracy. Additionally, few events that support the thesis argument have been reported to media in English; therefore, readers might not be aware of some incidents.

Delimitations

This thesis is focused on specific, certain objectives rather than referencing broad materials. One delimitation is that some confidential or sensitive documents cannot be studied. Moreover, because BRI is constantly changing in terms of political, economic, and other factors, only material from 2015 to present will be used.

This thesis will analyze SREB and the China-Mongolia-Russia Economic Corridor in particular. In addition, this thesis will cover essential cases from projects related to all aspects of BRI. This thesis will not assess and describe the domestic Chinese policy for implementation of BRI and its necessities.

Significance of the Study

The significance of this thesis is that it will explore and identify potential advantages and risks that relate to Mongolian national security. This is significant because China's interest in Mongolia is due to its rich, strategic, natural resource deposits. This could give an advantage to China by providing industries with raw materials in close proximity and at a reasonable price. Also significant is identifying potential risks for Mongolia to mitigate in terms of joining BRI, most likely corruption in the field of the mining. Furthermore, if the author successfully identifies the potential risk, conceivable solutions to mitigate or prevent Mongolia from debt crises could be identified. This thesis will pursue seeking recommendations for how to exit the political dilemma with People's Republic of China, with whom Mongolia has already developed a "Good Neighbor" policy of friendly relations and wide-ranging cooperation. Overall, the aim of this paper is to explore issues in order to offer a more in-depth understanding of BRI implementation, not only in Mongolia, but also to the other states.

CHAPTER 2

LITERATURE REVIEW

Many questions have been raised regarding BRI; unfortunately Chinese officials and scholars alike have not given clear answers to any of these questions. Instead, they insist that BRI is open and inclusive and that every country that wants to join is welcome. Therefore, there are numerous sources that investigate China's BRI and the geo-political and geo-economics influence of China on the world stage. Most of the related literature's arguments point to the possibility that there are hidden geopolitical strings attached under BRI.

Especially from the Western perspective, this can be frustrating, and some analysts have been tempted to reject BRI altogether as an empty slogan.⁴⁹ Most officials and experts are remaining cautious about BRI's impact on some participating countries, especially on their national security. For instance, an article in the Economist magazine claims, that "Analysts in Asia and the West believe that China wants to displace America as the Asian hegemon."⁵⁰

A few scholars have directly studied China's potential influence, especially regarding risks to the Mongolian national security. Thus, the literature review of this will provide fundamental understanding of BRI as an introduction and examine China's grand strategy of BRI, not only published by Chinese analysts, but also recent American

⁴⁹ Nadège, *China's Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative*, 88.

⁵⁰ D'Urbino, "Planet China: What to Make of the Belt and Road Initiative."

scholarship on the topic. In addition, as background information, this thesis will review how the current Mongolian economic situation relates to BRI. This literature review will begin with China's official and research documents to be followed by the Western fellows' literature, and will continue with how Mongolian scholars explain Mongolian participation in BRI. Lastly, case studies of the countries that are affected by China's BRI will be reviewed.

Chinese Literature

In general, in Chinese literature BRI is described as a positive initiative. Chinese authors dismiss fears that BRI will expand China's dominance in the region. They predict this program will bring growth and prosperity to nations participating in it.

The National Development and Reform Commission (NDRC), Ministry of Foreign Affairs, and Ministry of Commerce of the Peoples Republic of China, with State Council authorization drafted and published a plan named, "The Vision and Actions on Jointly Building Silk Road Economic Belt (SREB) and 21st-Century Maritime Silk Road (MSR) in March 2015."⁵¹ This plan comprised of a summary of various aspects of the effects of jointly building the SREB. It describes the general plan of the six economic corridors connecting 65 countries with China.

The plan attempts to show the possible benefits to China and how it will bring a brighter future for the region as a whole. Furthermore, this plan emphasizes that BRI is focused on the themes of peace, development, cooperation, and mutual benefit. However,

⁵¹ National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce, People's Republic of China, *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*.

it provides neither a clear contingency plan with regards to the protection of BRI participants, nor a broad illustration of China's policy on the implementation. Therefore, many countries are more than suspicious about China's true interest in BRI. Thus, there are accusations that China's analysts have not openly stated the real reason to launch BRI, nor its probable impact on other countries, such as Mongolia.

Most Chinese scholarship argues that BRI will bring benefit to the Asian region. For instance, Long Kaifeng wrote about the OBOR strategic concept describing it as win-win for all nations in Asia. According to Kaifeng, through the OBOR, the nations will connect to China and will "get a fast and free ride on China's growth and achieve collective rise and prosperity."⁵² He also highlighted President Xi's announcement of the Chinese contribution of 40 billion USD for BRI funding and encouraged other countries to respond positively.

In 2014, Huan In and B. Indra translated Fu Monzi's article, "The Strategic Concept for Development of One Region, One Route," from Chinese to Mongolian and published it in the Mongolian Journal of Strategic Studies. Fu Monzi, the Dean of China's Academy for Modern Foreign Countries Studies, explains how China invented the Ancient Silk Road in 138 BC and how President Xi uses this historical context to launch a new but upgraded Silk Road initiative.⁵³ In addition, the author states that China has generated a favorable condition to implement BRI.

⁵² Kaifeng Long, "Chinese Peoples Association for Peace and Disarmament, NGO in Consultative Status with ECOSOC and Associative Status with DPI of the United Nations," *Peace* 114 (March 2015): 2.

⁵³ Huan In, and B. Indra, trans., "The Strategic Concept for Development of One Region, One Route," *The Mongolian Journal of Strategic Studies*, no. 67 (2014).

Using economic and political mechanisms, China demonstrated a friendly relation with most nations in the region, which resulted in increased economic integration between neighboring countries. Since China plays a major role in investing in its neighbors, transportation infrastructure and roads have been built from China to joining countries. The author emphasizes that the intention of BRI development is not aimed against any third nation, but rather to increase China's power in the region.

Fu Monzi states that China, as the leading nation in this region, should take the responsibility to assist other nations since most of them are considered poor and underdeveloped. Therefore, the author argues that it is in China's interest to integrate its infrastructure development plans with BRI based on China's capital, assets, technical expertise, and human resource, especially since China has enough financial resources to implement this project.

BRI has encountered some criticism from foreign leaders. They view China's claim of ownership of the ancient Silk Road as historical inaccuracy as it was a result of joint effort of many nations in the region. In addition, they view China's financial help to nations in the region as intention of dominance – a way to indebt and then force nations into agreements favorable to China. As will be discussed in Chapter 4, China's implementation of BRI often contradicts its claimed goals.

Fu Monzi noted that Mongolia and China have a commonality of history, culture, ethnicity, geographic location, economy, and religion that ties the two countries together. The author claims that the characters of the economies of both nations complement each other; therefore, both countries should expand their cooperation in the realms of mining, infrastructure, and finance. Hence, the countries signed the Comprehensive Strategic

Partnership mentioned earlier in this thesis. Based on this analysis, it can be suspected that China needs Mongolian resources.

Xi has a strong interest in building the digital Silk Road that supports BRI. In 2017, China Daily reporter, Wang Xiaodong, states that China will release a document outlining its application of its BeiDou navigation satellite system and that it is ready to provide services overseas. The author claims that China “can produce enough terminals for overseas users.”⁵⁴ One example is that Mongolian herdsman already use China-developed the BeiDou satellite system to track their livestock, and this system is expected to be popularized in other BRI countries as well.⁵⁵ The article talks only about the technical data pertaining to systems performance. However, the chief financial officer at the Chinese technology giant Huawei, Ms. Meng, was arrested in Canada by the United States’ request. She is charged with bank fraud and stealing trade secrets from Huawei of China.⁵⁶ This implies China’s willingness to globally spread technology as a means to conduct unlawful activities. Consequently, there must be limitations and constraints placed on Chinese technologies used by the government of Mongolia.

⁵⁴ Global Times, “High-Tech Mongolian Herdsmen Use Beidou to Track their ships of the Desert,” 22 February 2017, accessed 19 May 2019, <http://www.globaltimes.cn/content/1034357.shtml>.

⁵⁵ Wang Xiaodong, “Document to Navigate Beidou to Be Released,” *China Daily*, 10 November 2012, accessed 19 May 2019, http://www.chinadaily.com.cn/china/2012-11/10/content_15907034.htm.

⁵⁶ Paul Mozur and Raymond Zhong, “Huawei and China, Facing U.S. Charges, Have Few Ways to Retaliate,” *The New York Times*, 29 January 2019, accessed 20 May 2019, <https://www.nytimes.com/2019/01/29/technology/huawei-indictment-criminal-charges.html>.

Western Scholarship Materials

In *China's Eurasian Pivot: the Silk Road Economic Belt*, Raffaello Pantucchi, Director of International Security Studies and Sarah Lain, research fellow at the Royal United Service Institute (RUSI), offer a comprehensive overview of China's relations with South and Central Asia. Furthermore, their book explains China's Grand Strategy regarding BRI's origin, definition, and Xi Jinping's foreign policy. It also describes China's concern of internal threat to domestic security, its policy of separatism, its quest for stability through economic development, and its plan of infrastructure and integration of energy, connectivity, trade and business, and manufacturing and production.

Pantucchi's key objective is the understanding of the perception of the regional countries along BRI, in particular with regard to China's intentions and the impact of those intentions. The author conducted interviews to determine the expression of the regional Sinophobia (fear of China).

In addition, Pantucchi examines the allocation of finance, internal investment mechanisms, multilateral, bilateral funding, return on investment, and benefits to local businesses and governments. Lastly, he analyzes China's concern of its external investment, which causes security situations in the participating countries.

Pantucchi argues that China's growing influence spreads globally as China pursues a greater role in international politics and economic development. BRI is just a tool in China's "grand strategy" to increase its influence around the globe.⁵⁷

⁵⁷ Pantucci and Lain, *China's Eurasian Pivot: The Silk Road Economic Belt*.

BRI started in 2013 when there were three major announcements; CPEC in Pakistan;⁵⁸ SREB in Kazakhstan;⁵⁹ and 21st MSR in Jakarta.⁶⁰ These projects were the framework of what has become BRI. Pantucchi emphasizes, “They are the clearest outline of a foreign policy vision that Xi has offered so far and provide a lens through which to understand how Chinese thinking on international relations is developing in the Xi Jinping administration.” Moreover, he highlights that SREB’s vision of the project is policy communication, road connectivity, trade facilitation, monetary circulation, and people-to-people exchanges.⁶¹

The book provides an overview of the land routes of BRI (SREB and CPEC), which both reconnect western China to its Eurasian neighborhood and ultimately to Europe. Both SREB and CPEC aim to build and upgrade roads, pipelines, railways, ports, oil refineries, factories, and production plants linking China’s west all the way to Europe,

⁵⁸ News of the Communist Party of China, “Li’s Visit Opens New Chapter in China-Pakistan Relations,” *Xinhua*, 24 May 2013, accessed 20 May 2019, <http://english.cpc.people.com.cn/206972/206976/8257218.html>.

⁵⁹ Ministry of Foreign Affairs of the People’s Republic of China, “President Xi Jinping Delivers Important Speech and Proposes to Build a Silk Road Economic Belt with Central Asian Countries,” 7 September 2013, accessed 20 May 2019, https://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysiesgjtftshzzfh_665686/t1076334.shtml.

⁶⁰ Wu Jiao and Zhang Yunbi, “Xi in Call for Building of New Maritime Silk Road,” *China Daily*, 4 October 2013, accessed 20 May 2019, http://usa.chinadaily.com.cn/china/2013-10/04/content_17008940.htm.

⁶¹ Ministry of Foreign Affairs of the People’s Republic of China, “President Xi Jinping Delivers Important Speech and Proposes to Build a Silk Road Economic Belt with Central Asian Countries.”

enhancing economic relations through connectivity. This is something that China has already been doing in these regions for many years.

These themes are identified as economics, security, and infrastructure. From a security standpoint, Pantucci believes that Central and South Asia are significant because of China's domestic issues.⁶² China's interest in these border regions is about development at home; Beijing is worried about stability in Xinjiang. It is China's westernmost region affected by ethnic tensions between the Han and Uighur populations. From China's perspective, the prosperity of neighboring countries is key to stabilizing Xinjiang. A "win-win" investment in infrastructure will prompt domestic economic prosperity, which in turn will provide conditions for ensuring social and political stability.

Pantucci also believes that soft loans provided by Chinese banks are another way to expand its international influence. Before, China's Export-Import Bank or China Development Bank (CDB) financed projects that were usually implemented by a Chinese company and workforce. Now, with the launch of BRI, China is diversifying its funding mechanisms. The Silk Road Fund (a new state-owned investment fund) and the international Asian Infrastructure Investment Bank (AIIB) promote China's role in Asian development alongside other international financial institutions. BRI therefore becomes a new umbrella under which China's 'Go Out' policy is implemented.⁶³

⁶² Pantucci and Lain, *China's Eurasian Pivot: The Silk Road Economic Belt*.

⁶³ Ibid., 4.

In his book, Pantucci predicts that China's expanding influence through BRI in Central and South Asia will increase its involvement in regional security and politics. He argues that increased investment and economic interests abroad will require China to protect its assets from damage, instability, or attack. China will also have to protect Chinese nationals who are working abroad. Pantucci believes that China will become more involved in internal politics of partner countries that may block the progress of BRI. In both security and politics, China is already shifting away from the non-interference principle of its foreign policy.⁶⁴

In his book *China's Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative*, Nadège Rolland, a Senior fellow at National Bureau of Asian Research (NBR), examines the concepts of BRI origins, its drivers, and its various component parts, as well as China's domestic and international objectives. He describes how BRI reflects Beijing's desire to shape Eurasia according to its own unique characteristics. This book provides a comprehensive review of current and planned projects and agreements in various economic and infrastructure sectors. BRI is more than an infrastructure project according to Rolland; it is a grand strategy of China's vision for itself as the preponderant power in Eurasia and a global power afterwards.

In his work, Rolland describes the China-Mongolia-Russia trilateral agreements and projects under the BRI umbrella. The agreements signed in 2014-2016 established the China-Russia-Mongolia Economic Corridor to strengthen rail and highway connectivity and construction, advance customs clearance and transport facilitation, and

⁶⁴ Pantucci and Lain, *China's Eurasian Pivot: The Silk Road Economic Belt*, 4.

promote cross-national co-operation in transportation..⁶⁵ The signing of these trilateral agreements identifies 32 projects in a wide array of domains that include transportation networks, energy, agriculture, tourism, health, food security, scientific and technical cooperation, customs clearance, and environmental protection..⁶⁶

Among these projects, construction of a Zamiin-Uud-Ulaanbaatar expressway was launched in May 2015 under the combined sponsorships of BRI and the Steppe Road initiative; a cross-border freight transportation link along a 2,152 km road connecting Ulan Ude in Russia to the port of Tianjin via Mongolian capital of Ulaanbaatar was opened in August 2016..⁶⁷

Rolland argues, that China has been also pushing for closer cooperation with Mongolia through several bilateral agreements. In a series of meetings, President Xi asserted that BRI should be linked to Mongolia's development not only in infrastructure building, finance, and trade but also in mining, agricultural, and security sectors. This proposition incited a variety of concerns regarding Mongolia's increasing vulnerability to

⁶⁵ Xinhua, "Xi Proposes to Build China-Mongolia-Russia Economic Corridor," The State Council, The People's Republic of China, 12 September 2014, accessed 20 May 2019, http://english.gov.cn/news/photos/2014/09/25/content_281474989434179.htm.

⁶⁶ Nadège, *China's Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative*, 78.

⁶⁷ E. Orgil, "Altanbulag-Ulaanbaatar- Zamiin-Uud Highway Project Opens," GoGo Mongolia, 29 May 2015, accessed 20 May 2019, <http://mongolia.gogo.mn/r/146386>. See also Alica J. Campi, "Mongolia, Russia and China Work to Boost Transcontinental Rail Transit," *Eurasia Daily Monitor* 12, no. 73 (20 April 2015), accessed 20 May 2019, <https://jamestown.org/program/mongolia-russia-and-china-work-to-boost-transcontinental-rail-transit/>.

Chinese conditions at a time of economic challenges, however, due to the global decline in commodity prices.⁶⁸

Government-backed financing in support of BRI has largely driven Chinese investment in small and medium-sized projects in Mongolia.⁶⁹ In 2014, both governments doubled the amount of currency exchange between the People's Bank of China and the Bank of Mongolia to 20 billion yuan [\$3 bill in 2019].⁷⁰ In 2015, China and Mongolia signed an Memorandum of Understanding (MOU) to establish a cross-border trade area.⁷¹ Additionally, to foster people-to-people cooperation, China has allocated funds to train 500 Mongolian youths, 500 military officers, and 250 journalists.⁷²

Beside the transportation infrastructure, BRI also calls for developing Eurasia's telecommunication infrastructure. Cables of the digital Silk Road will be run along red lines and future Eurasian fiber optic backbone will benefit from transportation networks. For countries in the heart of the continent, this would mean greater access to international

⁶⁸ Jeffrey Reeves, "Mongolia's Place in China's Periphery Diplomacy," The Asan Forum, 7 April 2016, accessed 20 May 2019, <http://www.theasanforum.org/mongolias-place-in-chinas-periphery-diplomacy/>.

⁶⁹ Nadège, *China's Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative*, 79.

⁷⁰ Ibid.

⁷¹ Xinhua, "China, Mongolia Meet on Cross-Border Trade Zone," *China Daily*, 27 March 2015, accessed 20 May 2019, http://www.chinadaily.com.cn/business/2015-03/27/content_19931467.htm.

⁷² Nadège, *China's Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative*, 79.

data networks. For instance, in 2006, the telecom giant ZTE was hired by the Afghanistan government to establish the country's first fiber optic cable network, while Huawei signed several contracts in Turkmenistan and Kyrgyzstan to construct fiber optic communications lines.⁷³ The last of the projects is an ambitious Eurasian fiber-optic communication landline that was announced by Russian MegaFon in October 2013 and will be built with equipment supplied by China's Huawei.⁷⁴ China and Russia have also partnered in developing terrestrial telecommunication links across the continent, including the world's longest terrestrial cable link, the Trans-Europe Asia, in addition to the Europe-Russia-Mongolia-China network, the Trans-Eurasian information Super Highway, and the Diverse Route for European and Asian Markets.

Several new projects are designed to build telecommunication networks between Asia and Europe to forge international cooperation in this domain. In July 2015, Lu Wei, the head of China's Cyberspace Administration, called for a joint project with the EU to build a "digital Silk Road, a Silk Road in cyber space," and alluded to the commonalities between China's "Internet plus" Strategy and the EU's digital agenda.⁷⁵ A few months

⁷³ Wadsam, "First Fiber Optic Network in Afghanistan," 2 December 2012, accessed 20 May 2019, <https://wadsam.com/afghan-business-news/first-fiber-optic-network-in-afghanistan-798/>; Deirdre Tynan, "Central Asia: Are Chinese Telecoms Acting as the Ears for Central Asian Authoritarians?," Eurasianet, 15 February 2012, <https://eurasianet.org/central-asia-are-chinese-telecoms-acting-as-the-ears-for-central-asian-authoritarians>.

⁷⁴ Nadège, *China's Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative*, 86.

⁷⁵ European Commission, "Europe 2020 Strategy," 14 March 2019, accessed 20 May 2019, <https://ec.europa.eu/digital-single-market/en/europe-2020-strategy>; Liu Jia and Gao Shuang, "China, EU to Promote Digital Silk Road," *China Daily*, 7 July 2015,"

later, the EU and China signed a declaration on the development of 5G mobile networks.⁷⁶

In addition to the effort to build fiber-optic cables, China is pursuing the completion of a “Space-based Silk Road.” In June 2016, China announced the goal to expand the BeiDou Navigation Satellite System services to countries covered by BRI by 2018 and to achieve global coverage by 2020.⁷⁷ BeiDou also intends to demonstrate its usefulness in “transportation, tourism, maritime application, disaster reduction and relief, and agriculture” and in “serving the world and benefiting mankind.”⁷⁸ China has already started to offer BeiDou’s services to countries such as Pakistan, Thailand, and UAE, as well as regional organizations including ASEAN and the Arab League.⁷⁹

John Hurley, Scott Morris, and Gailyn Portelance, the Fellows with The Center for Global Development, published the research paper “Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective.” In this work, the authors examine Chinese infrastructure financing initiative under BRI and its potential effects on

⁷⁶ European Commission, “The EU and China Signed a Key Partnership on 5G, Our Tomorrow’s Communication Networks,” 28 September 2015, accessed 20 May 2019, http://europa.eu/rapid/press-release_IP-15-5715_en.htm.

⁷⁷ Jie, “Nation Considers Space-Based ‘Silk Road of Satellites’ to Provide Data Services.”

⁷⁸ The State Council Information Office, The People's Republic of China, *China’s BeiDou Navigation Satellite Systems* (Beijing: Foreign Language Press, June 2016), accessed 21 May 2019, <http://en.beidou.gov.cn/SYSTEMS/WhitePaper/201806/P020180608507822432019.pdf>.

⁷⁹ International Civil Aviation Organization, “Progress in the BeiDou Navigation Satellites System and Application of Multi-Frequency and Multi-Constellation GNSS,” (Working Paper, 31 August 2016), accessed 21 May 2019, https://www.icao.int/meetings/a39/Documents/WP/wp_333_en.pdf.

countries with considerable national debt. Infrastructure financing, which often entails lending to sovereign states, may create risks of debt distress in some borrower countries.⁸⁰

John Hurley et al. identified 23 BRI-member countries that have a national debt-to-GDP ratio above the 50-60 percent threshold indicating a potential debt sustainability problem. These authors focus on countries in which debt to China, as a share of total public external debt, would be particularly high due to BRI-related projects. Eight of those countries, including Mongolia, could face a significantly increased risk of a sovereign debt default if planned BRI projects are implemented and financed with sovereign loans or guarantees.⁸¹

John Hurley et al. argue that Mongolia is in a particularly difficult position because its future economic prosperity depends on large infrastructure development that will increase productivity and facilitate exports. Financing for these developments will need to be secured on a concessional basis, which either offers interest rates below those available on the market or have a long repayment grace period, or a combination of these.

Recognizing Mongolia's difficult situation, China Exim Bank agreed in early 2017 to provide financing under its 1 billion USD line of credit at concessional rates for a hydropower project and a highway project from the airport to the capital. However, it reports that Beijing expects to channel some 30 USD billion in credit to BRI-related

⁸⁰ Hurley, Morris, and Portelance, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective."

⁸¹ Ibid., 5.

projects over the next five to ten years are true, then the prospect of a Mongolia default is extremely high, regardless of the concessional nature of the financing.⁸²

China's ambitious goals of developing infrastructure across multiple sectors and domains present both benefits and drawbacks. Although not all authors provide their assessment of BRI's direct and indirect impact on its member countries, it is possible to draw some conclusions based on the information provided in their work. On one hand, the development of civil and communications infrastructure would significantly aid underdeveloped, landlocked countries on the continent. However, this would create a dependence on Chinese services related to potential equipment, products, labor, infrastructure, operations, and end-use, and impact development of BRI member countries' own labor, technologies and industrial development in those sectors. On the other hand, all major BRI projects are being executed or funded by Chinese government-owned enterprises and financial institutions. This could potentially give China a disproportionate advantage and, in fact, leverage in political and economic negotiations with its partners. Among other things, it could further exacerbate the debt sustainability issue. As BRI develops among other members, there is a compounding effect to be considered with countries applying pressure on behalf of China's position and interests. Thus, BRI seems to offer a clear developmental benefit to its members, but at a potential cost of those states losing some of their national sovereignty and financial stability.

⁸² Kenderdine, "Mongolia Gets On Board with China's Belt and Road Initiative."

Mongolian Literature

In 2014, the Mongolian Journal of Strategic Studies published the article “Mongolia, China, and Russian cooperation on the economic corridor of infrastructure development”⁸³ by Otgonsuren Buyanhishig and Huan In. The authors state that in order to establish the economic corridor, all three nations should set appropriate conditions in their respective countries first. Each should focus on infrastructure development with emphasis on railway development.

The authors also studied the investment and funding resources, the railway’s capacity, and difference of rail trace between three nations as well as major economic difference and primary export methods. Despite these issues, the authors emphasize that participants are willing to synchronize their railways into an economic corridor; therefore, it is critical to develop an integrated plan and the creation of a joint working mechanism is necessary for an effective operation of the proposed economic corridor.

In 2010, according to the railway policy of the Government of Mongolia, if approximately 5683.5 km of freight railway infrastructure were built, the estimated export load would increase by 50 million tons annually. It is estimated that 1km of railway costs at least 2 million USD; thus the total budget would be 5 trillion USD.⁸⁴ It

⁸³ Otgonsuren Buyanhishig and Huan In, “Mongolia, China, and Russian Cooperation on the Economic Corridor of Infrastructure Development,” *The Mongolian Journal of Strategic Studies* (2014).

⁸⁴ Asian Development Bank, “Managing for Development Results: Rail Infrastructure Tariffs-Enabling Private Sector Development in Mongolia's Railway Sector” (Mandaluyong City, Philippines, 2014), Accessed 23 May 2019, <https://www.adb.org/sites/default/files/publication/156508/rail-infrastructure-tariffs-mongolia-mn.pdf>.

recommends that the railway construction should be implemented either by government owned companies or concessions to commercial companies due to lack of funding.

Mongolia does not have many government-owned companies with capacity to handle this project, however. It is more likely that a project will be given to Chinese companies to handle the construction; this could increase risk of more debt to Mongolia.

In addition, the authors noted that China is planning to implement its railway and roadways from Eastern and Northeastern of China to link Mongolia and Russian routes. Most of China's heavy industries are located in this area; therefore, China ties this economic corridor to its 12th five-year plan of the heavy industrial restoration. The author argues that China's intention is to cooperate about energy with its neighbors. Because this corridor crosses a few countries, it is relatively safe and provides the shortest distance of about 1000 km less between Europe and China compared to other corridors.

In the meantime, Russia has launched its long term strategy of the economic and social development in Siberian and Baikal Lake provinces, which is going to connect Mongolia and China through an economic corridor as well. In 2015, Russia and China signed the agreement on building a bullet train in this region; this will reduce the time to travel between Moscow and Kazan from 11 hours to 3 hours and will be connected to the railroad in Mongolia in the future. These efforts could bring economic benefit to Mongolia through transportation of freight.

If Mongolia could have access to sea ports in Russia and China for exporting its commodities, the country would see more economic advantages according to Otgonsuren.

However, this could increase pressure on Mongolia in terms of the time constraints for generating enough funding for the freight railroad without increasing debt distress.

E. Urantsetseg, who studied Russian perspective of BRI, focused his 2016 article in the *International Affairs* magazine particularly on the cargo transportation via railway.⁸⁵ However, recently the relationship between Russia and China has improved. Russia is actively enhancing economic cooperation with the countries to focus on infrastructure development in order to avoid losing its influence in the Eurasian region.

Urantsetseg noted that bridging its neighbor's economic cooperation by railway is an opportunity for Mongolia. Currently, "Ulaanbaatar Railway" which has its shareholders in Mongolia and Russia, transports the majority of cargo. The author claims that this railway will function as one of the economic corridors in Mongolia, if further developed. In 2014, the shareholders allocated 890 million USD funding to build a dual freight railway and electrify it in order to enhance the Ulaanbaatar railways' capacity.

She states that out of 32 projects, eight initiatives relate to the railway's preliminary plan that was signed by three nation's leaders under the Russia-Mongolia-China Economic Corridor. In addition, the author mentioned the economic advantage of the current railway renovation that will bring 10 million tons of cargo that could increase Mongolian participation in the region. Such participation could include the foreign company's physical activities in terms of transportation of cargo and money transaction activity.

⁸⁵ E. Urantsetseg, "Freight Transportation via Railway," *The International Affairs Magazine in the Mongolian National University*, no. 32-458 (2016): 1.

Russia and China have different railway lines; therefore, this brings advantage to Mongolia. In 2014, oil occupies the major transportation commodity among all cargo between Russia and China through Mongolia; as a result, in 2014, in Sochi, the agreement of transportation of 2.5 million tons of oil was signed. This will bring 50 million USD profit to Mongolia.⁸⁶ Lastly, China's goods that are transported to Europe will bring sure benefit to Mongolia.

Urantsetseg emphasizes some of the concerns with the investment given to Mongolia as a loan from China's banks that could pressure the Mongolian economy. She assumes that infrastructure development creates more urban areas. Meanwhile, the many foreigners will settle in these territories through the economic corridor.

Urantsetseg sees the four corridors as an opportunity for Mongolia to improve its economy. She states that most of the projects' implementation of the preliminary plan is unclear. She emphasizes that only the central railway corridor exists now. She does not state which corridor should be built first, but the sequence of the projects does matter especially for a country such as Mongolia that has a small economy. Therefore, Mongolia should begin with the central corridor. Additionally, Urantsetseg suggests that Mongolia needs to develop an integrated policy on freight railway based on comprehensive analysis and research. It is essential to Mongolia to keep a balanced relationship with its two neighbors.

⁸⁶ Urantsetseg, "Freight Transportation via Railway," 1.

CHAPTER 3

RESEARCH METHODOLOGY

This thesis will study the secondary effects of BRI by examining countries' lessons learned. Specifically, it will examine the potential consequences of BRI implementation in Mongolia. Currently, China is implementing BRI internally and with some of its neighbors in Asia. BRI seems to offer a clear developmental benefit to its members, but in the cases of Tajikistan and Sri Lanka, it became a warning to other participants that they might face a potential cost of losing some of their national sovereignty and financial stability. As a result, countries such as Malaysia and Sierra Leone are canceling some BRI projects to avoid future debt distress. It is important therefore, important for Mongolia to examine China's foreign policy in reference to the China-Mongolian-Russian Economic Corridor and the subsequent implications of China's influence through BRI.

According to its Vision and Actions Plan document, China will implement BRI throughout the world in all possible economic aspects by 2050.⁸⁷ Mongolia is a neighbor country and located to the north of China. Therefore, Mongolian involvement is essential for China's BRI to shortcut the distance from China to Europe. Mongolia understands that a China-Mongolia-Russia Economic Corridor could bring the opportunity for it to more efficiently export its commodities to the world market. Thus, during several official visits, the heads of Mongolia and China signed agreements in

⁸⁷ National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce, People's Republic of China, *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*.

order to establish this economic corridor. Conceptually, this should be a win-win situation for China and Mongolia. However, as mentioned above, there have been negative consequences revealed in some countries during the implementation of BRI. Most of these negative consequences occur in fragile and underdeveloped countries. Such countries started reducing or canceling China's investment of BRI to avoid debt that could potentially hinder their national sovereignty. This thesis argues that China's BRI-related activities might potentially imbalance Mongolian security and sovereignty and outweigh near-term economic advantages.

Even though the thesis concentrates on the China-Mongolia-Russia Economic Corridor, it will use broad reference materials in terms of BRI projects in various countries and their challenges. The intent of the thesis is to obtain a better understanding of China's influence over countries that implement the BRI. This thesis presents open source research materials by various authors including Chinese, Western, and Mongolian authors mentioned in Chapter 2.

The thesis will use case study analysis to answer research questions. The cases selected for this study represent two countries currently participating in BRI: Sri-Lanka and Tajikistan. The analysis will rely heavily on relevant and available qualitative data and narrative. The author will present analysis in two phases.

Phase I will review case studies and assess the effects of China's BRI on national security of the two selected countries. The first phase will answer the secondary research questions of how BRI has affected other nations.

In phase II, the researcher will attempt to answer the secondary question of how BRI would potentially affect Mongolian national security. This phase will compare and

contrast the two selected countries with Mongolia. Through comparison and contrast in countries' economic and political structures, the study will attempt to derive the potential consequences of BRI participation for Mongolia.

This thesis examines the size of China's loans and compares their amounts to case study countries' annual GDP. These countries included Sri-Lanka, Tajikistan, and Mongolia, all of which are shown to be highly vulnerable to debt distress in Figure 2 through the criteria of public and publicly guaranteed debt, external debt, and publicly guaranteed external debt. These statistics reflect 2016 or end-2016 values, with the exception of the lending pipeline, which reflects estimated values post-2016. Data was taken from the World Bank, IMF, and the authors' estimates based on publicly available sources and the other various databases cited in this paper.

In addition, this study focuses on looking at debt distress and increasing China-caused corruption of the countries involved with BRI. This thesis will display five countries summarized secondary effects from BRI, their governments' general GDP, and Corruption index in figure 3.

Following the analysis, the thesis will draw conclusions and recommendations and answer the questions of how Mongolia can avoid the potential negative consequences of BRI and how it can maintain balance between its national security and pursuing economic benefits.

CHAPTER 4

ANALYSIS

Despite the fact that BRI has benefits for its members, some countries have provided indications of potential risks of losing their national sovereignty and financial stability. Malaysia and Sierra-Leone, for instance, have quit BRI because of both debt distress (debt trap) and China's over-influence. Debt trap is when a borrower state is unable to repay the loan to its creditor. The results of this inability to repay loans often results in negative consequences to the borrower, such as loss of control of territory or resources deposits, etc. These countries are concerned that the soft loans provided by Chinese banks are another way for China to expand its influence over their states.

Additionally, BRI causes other security concerns in borrower nations. Not only does China bring in a workforce to implement projects, but also the executing companies are Chinese government-owned. Therefore, China's influence through BRI in Central and South Asia increases its involvement in the participant states' security and politics. Research fellow Pantucci believes that China will become more involved in internal politics of partner countries that may block the progress of BRI. In both security and politics, China is aware of its own risks and is already shifting away from the non-interference principle of its foreign policy.⁸⁸

As result, borrower countries are unsure of what actions China will take if they fail to repay debt. There are several examples of this since BRI's initial implementation. Tajikistan and Sri-Lanka have been selected as a case studies because each country has

⁸⁸ Pantucci and Lain, *China's Eurasian Pivot: The Silk Road Economic Belt*.

experienced negative impacts that can be measured and examined. The analysis will start with an overview of each country's political and economic situation, with appropriate comparison of Mongolia's diplomatic and economic ties with China. Finally, it will provide a description of negative impacts of the relationship with China based on the CIA Fact Book, the World Bank Report, International Monetary Fund (IMF), and other open sources.

The case of Sri Lanka is a vivid example of how China leverages BRI through a debt trap to achieve its expansion of global influence. The Democratic Socialist Republic of Sri-Lanka's major differences from Mongolia are geographical location, government, population, and economy. Sri Lanka is surrounded by water in the Indian Ocean. This allows easy access by maritime transportation, and has the strategic advantage of access to Asia, Europe, and Africa by sea. In contrast, Mongolia has no access to the ocean, and ground transportation is the shortest and safest way to the rest of the Asia and Europe.

In the 2017 World Bank assessment, Sri Lanka had about 21.4 million people, which is 7 times higher than the Mongolian population. The majority of its people are considered poor; however, unlike Mongolia, it has a large labor force that could reduce the need for Chinese workers. In 2017, the World Bank estimated that the Sri Lankan GDP was 87.36 billion USD and the Mongolian GDP was 11.43 billion USD. In 2017, Sri-Lanka's exports were estimated at 11.36 billion USD, and were mostly textiles, apparel, tea, spices, rubber products, precious stones, coconut, and fish. In contrast, Mongolia's main export products were copper, apparel, livestock, animal products, cashmere, wool, hides, fluorspar, other nonferrous metals, coal, and crude oil. In 2017, total export was 5.834 billion USD. In general, both countries are commodity-dependent.

Sri Lanka and Mongolia are considered developing countries because of undeveloped infrastructure. They rely on natural resources and agriculture. Their corruption index values are high. (See figure 2). Both countries still face critical challenges as they strive to become upper middle-income countries. Sri Lanka has been attempting to sustain economic growth while maintaining macroeconomic stability under the IMF since 2016.⁸⁹ The World Bank Group supports Sri Lanka's transition to a more competitive, inclusive, and resilient upper-middle income country. In 2017, IMF approved a three-year extended arrangement under Extended Fund Facility.⁹⁰ This economic program aims to stabilize the economy, restore confidence, and pave the way to economic recovery.

According to IMF, the World Bank, and CIA, and Fact Book's analysis, from 2016 to 2018, Sri Lanka's current real GDP growth has not significantly changed; however, its government external debt is rapidly increased. The government debt reached about 79% of GDP and remains among the highest of the emerging markets. On the other hand, according to the World Bank report, the Mongolian economic update 2018 report indicated "After a sharp slowdown during 2014-16 driven by a fall in commodity prices and declining FDI, the Mongolian economy strongly recovered in 2017 and first half of 2018. GDP growth rate increased from 1.2 percent in 2016 to 5.3 percent in 2017 and 6.3

⁸⁹ Central Intelligence Agency, "The World Fact Book: Sri Lanka," accessed 23 May 2019, <https://www.cia.gov/library/publications/the-world-factbook/geos/ce.html>.

⁹⁰ Keiko Utsunomiya, "IMF Executive Board approves financial arrangement for Mongolia," International Monetary Fund, 14 May 2017, accessed 23 May 2019, <https://www.imf.org/en/News/Articles/2017/05/24/17193-imf-executive-board-approves-financial-arrangement-for-mongolia>.

percent the first half of 2018. Strong growth momentum was supported by steady commodity exports (coal and copper), a recovery in FDI, and improved business sentiments as well as effective implementation of economic adjustment program by the government.”⁹¹

However, the Mongolian increased economy recovery was due to world commodity stability in the market in the previous two years. Its government external debt number is similarly becoming higher. Both countries have a high number of external governmental debts, particularly to China. (See figure 3) Thus, both countries need to attract foreign investors’ participation in order to avoid a singular creditor’s dominance.

During the Sri Lankan civil war, the country became increasingly isolated from the international community by accusations of human rights abuses. Under president Rajapaksa, Sri Lanka relied heavily on China for economic support, military equipment, and political cover at the United Nations to block potential sanctions.⁹²

According to the CIA Fact Book, China supported Sri Lanka during the post-civil war period under President Mahinda Rajapaksa. The support took the form of loans from the government of China.⁹³ President Mahinda Rajapaksa’s desired end state was likely the legitimization of his presidency and gained popular support. He worked toward his end state by enacting an ambitious program of infrastructure development projects.

⁹¹ The World Bank, “The World Bank in Mongolia: Overview,” 28 September 2018, accessed 27 April 2019, <http://www.worldbank.org/en/country/mongolia/overview>.

⁹² Maria Abi-Habib, “How China Got Sri Lanka to Cough up a Port,” *The New York Times*, 25 June 2018, accessed 21 Feb 2019, <https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html>.

⁹³ Central Intelligence Agency, “The World Fact Book: Sri Lanka.”

During the 2015 Sri Lankan elections, large payments from the Chinese port construction fund flowed directly to campaign aides and activities for Mr. Rajapaksa, who had agreed to Chinese terms at every turn and was seen as an important ally in China's efforts to tilt influence away from India in South Asia.⁹⁴ The payments were confirmed by documents and cash checks detailed in a government investigation seen by *The New York Times*.⁹⁵ However, after the election, the new government struggled to make payments on the loans.

Despite the elected government's campaign of reducing or canceling China's BRI projects, other creditor nations were not interested in investing in Sri-Lanka. Thus, Chinese loans were the only option, but included negotiations for the repossession of the Hambantota port after the Sri Lankan Government struggled to repay the debts it had amassed.⁹⁶ As a result, under heavy pressure and after months of negotiations with the Chinese, the Sri-Lankan government handed over the port and 15,000 acres of land surrounding it for 99 years in December 2015.⁹⁷ Despite warnings from experts that the project was not financially viable, former president Mahinda Rajapaksa's ambitious port project left Sri Lanka with debt distress putting its sovereignty in danger.

⁹⁴ Abi-Habib, "How China Got Sri Lanka to Cough up a Port."

⁹⁵ Ibid.

⁹⁶ D'Urbino, "Planet China: What to Make of the Belt and Road Initiative."

⁹⁷ Abi-Habib, "How China Got Sri Lanka to Cough up a Port."

Table 1. Countries Significantly or Highly Vulnerable to Debt Distress
(figures in USD millions)

Country	GDP	PPG Debt	PPG ED	Debt to China	BRI lending pipeline
Sri Lanka	81,322	69,286	32,565	3,850	2,136
Tajikistan	6,952	2,906	2,252	1,197	2,807
Mongolia	10,951	9,593	7,392	3,046	2,469

Source: John Hurley, Scott Morris, and Gailyn Portelance, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective" (CGD Policy Paper, Center for Global Development, Washington, DC, 2018), 28.

PPG Debt = Public and Publicly Guaranteed Debt; ED = External Debt; PPG ED = Public and Publicly Guaranteed External Debt

NOTE: All GDP and debt statistics reflect 2016 or end-2016 values, with the exception of the lending pipeline, which reflect estimated values post-2016. World Bank, IMF, authors' estimates based on publicly available sources and the various databases cited in the paper

Another significant example in which China has managed a debt problem strictly through the bilateral relationship and with unexpected outcomes is Tajikistan. In several respects, Tajikistan is similar to Mongolia. It is landlocked and borders east China in central Asia. Both countries declared their independence in 1991 following the breakup of the Soviet Union.

Tajikistan was not stable internally and externally after a civil war between political, regional, and religious factions between 1992 to 1997. In addition, ISIS threatens this country as well.⁹⁸ President Emomali Rahmon, who came to power during the civil war, ruled the country as a dictator. Thus, in that way its governance structure is different from Mongolia, especially since democracy is not as developed. In contrast,

⁹⁸ Abi-Habib, "How China Got Sri Lanka to Cough up a Port."

despite the value of democracy, Mongolian politics have remained unstable based on the current incidents that often occur in Mongolia, such as protestors previously mentioned in this thesis. This public distrust indicates an evaluation of how the Mongolian government is functioning at all levels.

According to the index shown in figure 2, the corruption rate of Tajikistan is 152 out of 180 countries, falling below Mongolia by 59 countries. According to the 2014 United Nations Development program conducted survey, the opportunities for grand corruption in Mongolia are in two areas: foreign donor assistance and privatization of state-owned enterprises (Casals & Associates, Inc. /U.S. Agency for International Development [USAID], 2005).⁹⁹

In Tajikistan, the value of opiate trade transiting from neighboring Afghanistan is estimated to be an equivalent to 30%-50% of its GDP. The population is 8.6 million, three times more than the Mongolian population. Like young Mongolians, Tajik citizens often work abroad, “More than one million Tajik citizens work abroad, roughly 90% in Russia, supporting their families back home through remittances that in 2017 were equivalent to nearly 35% of the GDP.”¹⁰⁰ The country remains the poorest in the former Soviet sphere, although Tajikistan is rich in natural resources including hydropower,

⁹⁹ Narayan Manandhar, *Anti-Corruption Strategies: Understanding What Works, What Doesn't and Why? Lessons learned from the Asia-Pacific Region*, ed. Elodie Beth-Seo and Samuel De Jaegere (United Nations Development Programme, 2014), 24, accessed 23 May 2019, <https://www.undp.org/content/dam/undp/library/Democratic%20Governance/Anti-corruption/UNDP%20ACS%20Asia%20Pacific%20%20Anti-corruption%20Strategies.pdf>.

¹⁰⁰ Central Intelligence Agency, “The World Fact Book: Tajikistan,” accessed 23 May 2019, <https://www.cia.gov/library/publications/the-world-factbook/geos/ti.html>.

petroleum, uranium, mercury, brown coal, lead, zinc, antimony, tungsten, silver, and gold.¹⁰¹ Like Mongolia, the Tajikistan's economy faces major issues. The Tajikistan GDP is 6,952 million USD, and it imports 70% of its food. In 1992, a civil war severely damaged an already weak economic infrastructure and continued a sharp decline in industrial and agricultural production.

The major challenge was the property transition event that occurred from the centric economy to free market system after the democratic revolution in 1990. Many industries, factories, and plants were vandalized, embezzled, and destroyed when the government property was transferred to private owners. Since then, there have been numerous examples that Industrial development is rapidly improving both government and private firms. For instance, the Mongolian Armed Forces started contributing its participation to the Railway infrastructure development in Mongolia.¹⁰²

In general, a poor business climate hinders foreign investment and China owns about 50% of the government's external debt.¹⁰³ (See figure 3) John Hurly et al states that Tajikistan debt to China has reached 80%, Moreover, Tajikistan is planning to increase its external debt, despite IMF and the World Bank warning of debt distress. This includes a 3 billion USD portion of the Central Asia-China gas pipeline through

¹⁰¹ Central Intelligence Agency, "The World Fact Book: Tajikistan."

¹⁰² M. Unurzul, "Soldiers to Contribute to Tavan Tologoi Railway Construction," *Montsame, Mongolian News Agency*, 10 April 2019, accessed 6 May 2019, <https://montsame.mn/en/read/185855?fbclid=IwAR2IUtuJgFLAvR5M93Uova4qCjWQMbQvIuKJ2h-FktGsY0LcywGswCrzOzw>.

¹⁰³ Hurley, Morris, and Portelance, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective," 28.

Tajikistan, financed by Foreign Direct Investment of China. Most recently, Tajikistan issued 500 million USD in Eurobonds to pay for new hydropower generating facility.¹⁰⁴

In 2011, “China reportedly agreed to write off an unknown amount of debt owed by Tajikistan in exchange for some 1,158 square kilometers of disputed territory. At the time, Tajikistan said they only agreed to provide 5.5 percent of the land that Beijing originally sought.”¹⁰⁵ However, Tajikistan is still planning to increase its external debt, particularly its debt to China. “Tajikistan’s single largest creditor accounts for almost 80 percent of the total increase in Tajikistan’s external debt over the 2007-2016 period.”¹⁰⁶

¹⁰⁴ Hurley, Morris, and Portelance, “Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective,” 28.

¹⁰⁵ Atovulloev Bakhtiyor, “Tajikistan is turning into the new Province of China,” *Eurasia News*, 30 December 2016, accessed 24 February 2019, <http://eurasianews.info/en/analytics/tajikistan-is-turning-into-the-new-province-of-china-2.html>.

¹⁰⁶ Hurley, Morris, and Portelance, “Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective,” 39.

Table 2. Countries' Individual BRI, Involvement GDP, and Corruption Index Numbers

Country	Cases and projects	Real GDP growth (annual % change)			GDP –GOV External debt (USD Billion)			Corruption index (180 countries) Low is best		
		2016	2017	2018	2016	2017	2018	2016	2017	2018
Sri Lanka	In 2015, Lost Hambantota port, and Colombo Harbor with 269 hectare, \$ 8 billion loan at 6 percent interest	4.5	3.3	3.7	46.65	50.14	53.4	95	91	89
Tajikistan	Lost 1,158 square kilometers of disputed territory, 80 percent of the total increase in Tajikistan's external debt over the 2007-2016 period	6.9	7.1	5	5.301	5.881		151	161	152
Sierra Leone	Cancelled New international airport \$400 million	6.3	3.7	3.7	1.598	1.731		123	130	129
Malaysia	Cancelled the East Coast Rail Link project \$24.33 billion with cancellation fee	4.2	5.9	4.7	200.36	170.45		55	62	61
Mongolia		1.2	5.1	6.2	25.74	28.20		87	103	93

Source: Created by author. Estimates based on open sources and various databases cited in this thesis: CIA World Factbook, The World Bank, The International Monetary Fund, Transparency International.

As a result, China's approach to solve the debt relief of BRI borrowers violates the debtor state's sovereignty. To not run that risk, other member countries have chosen to stall or delay the biggest projects. Recently, other countries cancelled BRI projects. This section highlights of example of other countries who determined risk related to BRI was too great.

After attending the China-Africa Cooperation (FOCAC) in Beijing, Sierra Leone's president, Julius Maada Bio, cancelled a loan deal signed by his predecessor for China to build a new 400 million USD international airport at Mamamah.¹⁰⁷ This new airport is slated to be completed by 2022. According to Sierra Leone's current government, the project is "uneconomical" given its only existing international airport is "grossly under-utilized." Sierra Leone's Aviation Minister says the government will renovate the old airport instead of constructing a new one. The government is also considering building a bridge to connect Freetown, its capital city, to Lungi, the town where its only international airport is located. Travelers currently have to travel by boat from Freetown to Lungi. The World Bank warned that the airport loan would increase Sierra Leone's debt burden; Therefore, Sierra Leone's government made a decision to cancel the project. Furthermore, reporter Yomi Kazeem highlighted that China's "debt-trap diplomacy" in Africa is increasingly under examination.

"Malaysia will cancel the 20 billion USD East Coast Rail Link project with contractor China Communications Construction Co. Ltd, (CCCC)"¹⁰⁸ Malaysia's cabinet decided to cancel the contract with CCCC for the East Coast Rail Link project to avoid being burdened with heavy debt. This project was one of the biggest contracts within China's BRI. Its cost more than 100 billion Malaysian ringgit (24.33 billion USD). In

¹⁰⁷ Yomi Kazeem, "One of Africa's Poorest Countries Has Pulled the Plug on a \$400 Million China-Funded Airport," *Quartz Africa*, 10 October 2018, accessed 23 May 2019, <https://qz.com/africa/1419253/sierra-leone-cancels-400-million-china-airport-loan/>.

¹⁰⁸ Natnicha Chuwiruch, "Malaysia to Cancel \$20 Billion China-Backed Rail Link, Reuters Says," *Bloomberg Economics*, 25 January 2019, accessed 23 May 2019, <https://www.bloomberg.com/news/articles/2019-01-26/malaysia-to-cancel-20-billion-china-backed-rail-link-reuters>.

addition, Malaysian Prime Minister Mahathir Mohamad told the press that Malaysia would still have to pay a cancellation fee.¹⁰⁹ Throughout all of this, the current prime minister of Malaysia blamed his predecessor for involvement in corruption related to BRI.¹¹⁰

To conclude, most of the states examined rely heavily on China economically. Ideally, these states would have an option to borrow the money from other than China; however, their internal and external situations hinder other foreign direct investment and suffer from other problems related to geolocation, unstable and autocratic governments, corruption, and poorly developed infrastructure. In this respect, China's proposal of BRI is an option to fulfill their current needs, especially with no other willing investors. Nevertheless, only unhealthy governments would take the risk of the debt trap to gain benefits. This creates an environment that leads to risk debt distress in order to implement BRI.

The analysis indicates that dealing with China's BRI also leads to other significant problems, such as possible interference in elections and greater corruption. As previously mentioned, the cases of the Maldives, Sri-Lanka, and are Malaysia indicative.

¹⁰⁹ Rozanna Latiff and A. Ananthalakshmi, "Malaysia's Mahathir Seeks China's Understanding on Scrapped \$20-Billion Rail Deal," *Reuters*, 29 January 2019, accessed 23 May 2019, <https://www.reuters.com/article/us-china-malaysia-railway/malaysias-mahathir-seeks-chinas-understanding-on-scrapped-20-billion-rail-deal-idUSKCN1PN138>.

¹¹⁰ Tom Wright and Bradley Hope, "WSJ Investigation: China Offered to Bail Out Troubled Malaysian Fund in Return for Deals; The Secret Discussions Show How China Uses Its Political and Financial Clout to Bolster Its Position Overseas," *The Wall Street Journal*, (7 January 2019) accessed 23 May 2019, <https://www.wsj.com/articles/how-china-flexes-its-political-muscle-to-expand-power-overseas-11546890449?mod=searchresults&page=1&pos=1>.

Finally, in implementing BRI, China's companies are not truly private businesses and are non-transparent tools of the Chinese government's soft power and potential hard power projection.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

The Mongolian situation is not unique. Most of BRI recipients are developing nations and are hungry for foreign development investment. Many states are carefully observing BRI outcomes with other states to determine if BRI investment is right for them. There are challenges. If a state decides to wait to fully comprehend BRI's pros and cons, an economic opportunity may be missed. On the other hand, if a state joins BRI and expands too quickly, the risks could be great and the potential consequences are uncertain. China's promise of win-win for all participants at times does not work out.

The countries examined in this study have experienced negative impacts and shared conditions similar to Mongolia, including corruption, lack of infrastructure, investments, access to markets, and generally weak economies and governments. Some of the negative impacts experienced by these countries included repatriation of infrastructure, loss of territory, election influences, and debt trap.

Even though the Mongolian government has joined China's BRI effort, this thesis argues that Mongolia's current potential economic capacity is not well-aligned with implementing large BRI projects that are dependent upon excessive loans, especially from a single creditor like China.

First, Mongolia is neither politically nor economically ready to simultaneously implement mega-projects of BRI. As previously mentioned, the Mongolian political situation continues to be challenged. Consequently, this unstable situation hinders promoting a favorable legitimate environment for foreign and domestic investors.

Recently, as an example, not only some political leaders, but also government workers at

all levels, including law enforcement and judicial levels, are constantly involved with almost all sectors; however, mining-related corruption is particularly increasing due to recent incidents. This corruption is significantly hampering government transparency. Vague and unstable government policy negatively effects the attraction of foreign investment.

Second, Mongolia's unique geopolitical location and population density, roughly 3 million people in a vast territory of 1.5 million square kilometers, cause it to struggle to build and maintain its infrastructure throughout the country. The vast territory and its requirements overtax its budget.

Third, most of the companies operating in Mongolia are Chinese companies. As mentioned in Chapter 1, about 50% or 6640 investment companies in Mongolia are from China.¹¹¹ It is still unclear how many of them are China's state-owned entrepreneurs. Due to lack of openness by China, it is vague which businesses in China are truly state-owned and which are only state influenced. In general, China's great number of investments in BRI could imbalance Mongolian foreign policy, ultimately affecting Mongolian national security.

The thesis recommends that Mongolia continue with BRI to build a Eurasian Corridor as planned, but conduct further study to prioritize its projects, implement them sequentially, and budget accordingly. BRI loans should only be for financial investment, not in-kind material or work force. This would allow Mongolia to have more freedom in the selection of the resource material, option to select BRI project implementation team,

¹¹¹ Mongolian National Chamber of Commerce and Industry, "Introduction to Investment Property."

and flexibility of utilizing Mongolian work force for its project. These requirements are critical to achieve balance between quality of project and safety of national interest.

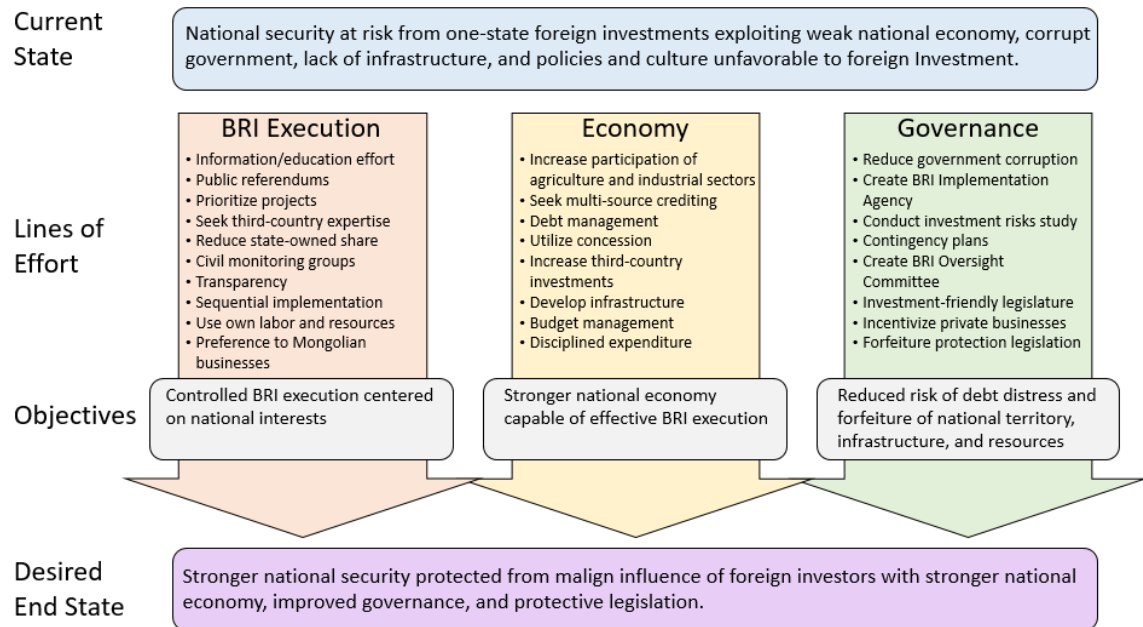
The amount of the debt should match the Mongolian government's budget. Mongolia should prepare contingency plans to prevent debt distress should there be economic downturns. Public transparency is important to maintain public trust in the management of the BRI projects. Inclusion of the public, possibly through referendum, in the decision-making process would prove beneficial.

It is also essential that the Mongolian government be held accountable to the public for fighting corruption at all levels of the government. Particularly, the Department of Combating Corruption must substantially step up efforts to reduce corruption. "Corruption impedes investment, with consequent effects on growth and jobs. Countries capable of confronting corruption use their human and financial resources more efficiently, attract more investment, and grow more rapidly."¹¹² A healthy and transparent government is key to implementing any project without subsequent corruption.

An essential factor contributing to the success of the project is the people of Mongolia. They must maintain involvement through the establishment of a Civilian BRI Monitoring Group. This independent group would monitor the finances and the implementation of the BRI projects and report its findings to both the Mongolian

¹¹² The World Bank, "Understanding Poverty: Combating Corruption," 04 October 2018, accessed 10 June 2019, <http://www.worldbank.org/en/topic/governance/brief/anti-corruption>.

government and the Mongolian people. This special delegation team should consist of nongovernmental organizations and citizens.



██████ BRI Lines of Effort in Mongolia

Source: Created by author.

Mongolia must avoid implementing long term strategic projects that could cause debt distress. As corruption is reduced, investment increases and speed of project execution can be increased. Aggressive anti-corruption efforts at all levels of the government will be seen as a benefit to the Mongolian people through speed and effective implementation of the BRI projects.

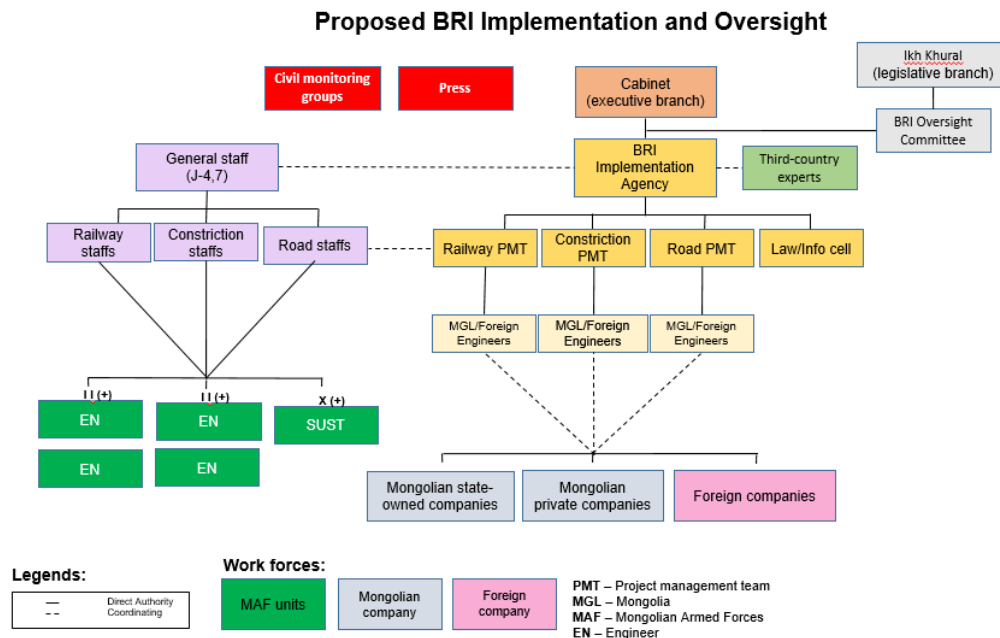
The government must focus more on improving the discipline of public expenditures and management of BRI projects. BRI projects need to be reexamined in terms of significance and investment determined by national need. Mongolian leaders

must remain aware that not every ambition should be executed. To further this the Mongolian government should establish a center for study that analyzes the best implementation process for BRI. This center should be composed of international as well as Mongolian experts. The government should seek international experts in project design through project competition in order to implement BRI projects in Mongolia.

Currently, some possible foreign investors criticize Mongolia's rapid change of priorities with each new administration; this impacts the climate for investment. Thus, it is essential that the government maintain attraction of Third Nation's investments through a positive climate that includes favorable legitimate tax policies for business entities and a stable long term approach to policy development and execution based upon national interests. This might not exclude Chinese investment. Mongolia should invite and offer the most significant economic projects to non-state owned firms through utilizing concessional based agreement. Ownership of at least 51 percent of the property must be retained by the Mongolian government. Mongolia should leverage Mongolian state-owned as well as Mongolian privately-owned companies by encouraging them to participate and invest in BRI projects, including railroad and roadways throughout Mongolia.

Wherever Mongolian skills exist to oversee, plan, and execute the BRI projects, they must be utilized over those of others. As an example, the Mongolian Armed Forces started contributing by participation in the railway infrastructure development. This will produce the added benefit of developing the private sector skills of the Mongolian workers. This type of effort must be supported and expanded by both state and other

privately-owned enterprises. The project management team should be comprised of the most experienced Mongolian and international experts.



Proposed Task Organization for BRI Implementation

Source: Created by author.

Despite internal political or personal interest, Mongolian policy makers must consider the national interest first; therefore, based on the current Mongolian potential economic capacity, the short-term priority must remain building the nearest railway that reaches seaports in Russia. The long-term priority must be to avoid excessive loans by using available funds from the national budget. Loans from single investors should not exceed 40 percent of the national GDP. National mining companies can also fund the railroads from their own profits, thereby reducing transportation rates.

A significant step is establishing funding for infrastructure development; all activity must remain transparent. Mongolia should invite a team of international experts to work with the government and the civilian BRI monitoring group to provide advice on how best to monitor expenditures and projects implementation. Finally, based on the potential capacity, the government must maintain a policy to gain profits from its economy, agriculture, farming (organic), and tourism, rather than relying only on the mining sector. A broad based economy is less likely to be impacted by single sector market downturns. This will have the added benefit of providing a more stable economy in which foreign investors will be more likely to participate.

Other nations, such as Serra Leone and Malaysia, altered their agreements and plans with China when they found that it was not to their benefit to continue. In the context of Mongolia's economic and political environment, its marketplace is small. Mongolia is strategically important as it is close to other large markets such as Japan and Korea, 3,000 and 2,300 kilometers respectively. Mongolia must maintain close economic relationships with these and other states.

This paper is fundamentally a risk assessment of Mongolia's continued involvement with China's BRI. It is true that BRI does provide benefits to its members; however, with these possible benefits there also comes risk. In some cases, this is the only opportunity for such an economic deal. Some states have experienced negative impacts on their national security. Mongolia is similar to some of these countries in corruption levels and lack of long term policies, lack of infrastructure, reduced investment possibilities, access to markets, and weak economies. This makes Mongolia inviting to foreign investments and business ventures. The negative impacts experienced

by these other countries, including repatriation of infrastructure, loss of territory, and unsustainable debt, will also affect Mongolia if it fails to conduct an adequate risk assessment and act accordingly.

This thesis has identified many issues and risks and some possible mitigating solutions. It is recommended that further study be conducted for possible additional risks and mitigating measures for Mongolia to maximize the benefits of BRI participation for its government and its citizens. This thesis strongly recommends that Mongolia mitigate the potential challenges based on what has happened to other countries before implementing any extensive participation in BRI.

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