

Towards Confidence Building: Sino-Mongolian Relations in the Post-Cold War Era

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Introduction

The study of China's foreign relations, particularly with its Asian neighbours referred to as "periphery countries" (*zhoubian guojia*), has assumed importance in the post-Cold War era, when a "comprehensive national buildup" based on the twin goals of security and great-power status emerged as the key element of Beijing's foreign policy. During the Cold War period China's foremost foreign policy concern was the erstwhile Soviet Union. Expectedly, the disintegration of the USSR played a decisive role in the improvement of China's external environment, both in terms of its neighbourhood and the favourable balance of power in the Asia-Pacific region. Politically, China began pursuing multilateral and bilateral diplomacy to convince other nations of the benefits of engagement; economically, it involved itself in nurturing relations with diverse trading partners to establish a forceful presence in the world. Non-military aspects of security, such as political and economic security have, therefore, become the prime concern of Chinese foreign policy. It is more so because security is no longer defined by a country's self-defence capacity but by its capacity to survive and compete. Chinese leadership has taken this pragmatic approach by no longer viewing the world from the viewpoint of class struggle, but from the viewpoint of power politics. After all, prosperity and survival have become most important objectives of every state's national effort. This can be achieved by forging mutually beneficial relations with the outside world. This characterises the Sino-Mongolian relations in the post-Cold War period. While Mongolia has been trying to overcome its geographical disadvantage of being a landlocked state and striving to have its independent existence despite being surrounded by two giant powers, Russia and China, it is Beijing which is emerging as Ulaanbaatar's main political and economic partner. Significantly, the post-Cold War security environment of Mongolia calls for bilateral and multilateral cooperation that has become one of the key factors of regional dynamism in the Asia-Pacific, in which China's role has been paramount. After a long period of mistrust and hostilities, Sino-Mongolian relations have now moved towards confidence building in matters of bilateral and multilateral concerns.

In such a scenario, the nature of Sino-Mongolian relations seems to be quite optimistic. This provides an opportunity to examine the current Chinese policy towards its immediate neighbour on the northern side particularly in the political, economic and strategic fields; also this will identify the major obstacles to and future trends in the smooth conduct of the overall relationship between the two sides. Empirical and historico-analytical methodology has been followed to analyze the extent and pattern of the entire gamut of Sino-Mongolian relations. However, an attempt has also been made to focus on those important issues that impinge on the relations and have the potential to determine the future. As it is, the following key questions have been addressed:

- (a) What impact do geo-political and geo-strategic changes in Mongolia's neighbourhood have on the Sino-Mongolian relations, particularly in the post-Cold War era?
- (b) What are the new developments in Chinese policy towards its neighbours or the "periphery" countries and what implications do they have for Mongolia?
- (c) What are the options left for Mongolia in terms of China's economic and trade dominance and what are the major areas still to be tapped for Chinese investment in Mongolia?
- (d) What roles do Chinese frontier provinces like Inner Mongolia play in the Sino-Mongolian relations?

Beginning of New Era: Post-Cold War Dynamics

For almost seven decades lasting until the end of the Cold War, the former Soviet Union dominated Mongolia's internal and external policies, while on the other side, relations between China and Mongolia were strained. It was so because as a pawn of geopolitics Mongolia could not escape being embroiled in the Sino-Soviet rivalry and eventually it had to take the Soviet side in what Clubb has termed the "Sino-Soviet Cold War" (Clubb 1971). But the collapse of the USSR and the end of the Cold War altered the geopolitical situation of Mongolia. This encouraged China to consider its future relations with Mongolia in the framework of new geopolitical realities on the northern side of its border. Herein lay the beginning of a new era in the relationship between the two sides. Mongolia is now no more dependent on Russia, and consequently, it can improve relations with China.

Gorbachev's Vladivostok Initiative

The emergence of a new equation in Sino-Mongolian relations owes much to a series of events in the middle and late 1980s that led to the Sino-Soviet rapprochement following a radical shift in Moscow's China policy. What was termed as substantial breakthrough in the normalization of Sino-Soviet relations came only after the Soviet leader Mikhail Gorbachev announced his Vladivostok initiative on 28 July 1986, which marked a significant shift in Moscow's Asia policy in general and China policy in particular. Improvement in relations with China was the key issue addressed by Gorbachev during his seminal Vladivostok speech, and hence, Mongolia too figured prominently in his overtures.¹ For Gorbachev knew that the normalization of Sino-Soviet relations to a great extent will also lead to an improvement in Sino-Mongolian relations. And, therefore, it was necessary to address the issue of Soviet troops withdrawal from the Mongolian territory which continued to be a major Chinese security concern and an impediment to normalization of both the Sino-Soviet as well as Sino-Mongolian relations. Finally on 2 March 1990, a Soviet-Mongolian Protocol signed in Ulaanbaatar declared the complete withdrawal of Soviet troops by 1992, which was actually accomplished on 15 September 1992. Complete withdrawal of Soviet/Russian troops from Mongolia not only marked the removal of a major obstacle to the full normalization of Sino-Mongolian relations but also paved the way for the two sides to define their relationship in terms of "equal partnership" in several key areas.

New Geopolitical Realities

With the end of the Cold War, the world's geopolitical power structures underwent a drastic change and so occurred the parallel changes in expectations and attitudes toward international relations (Cohen, 2003). The post-Cold War changes in Sino-Mongolian relations too have been a by-product of global geopolitical and regional geostrategic changes. And there are historical reasons to see it in that perspective as Mongolia's regional identity too underwent a change. A Mongolian historian described his country as "A Puppet Republic" whose destiny was manipulated by its two neighbours, Russia and China, for the most part of the twentieth century.² Therefore, the post-Cold War concepts of a "multi-pillar foreign policy" and a "balanced relationship" with regard to its powerful neighbours emerged from extensive discussions among policy planners who searched for a suitable option that would take into account Mongolia's geopolitical reality and the interests of its neighbours without compromising the country's own sovereignty. However, there have also been concerns about Mongolia's search for a Third Neighbour, such as the United States or Japan who could act as a balancing power vis-à-vis Russia and China. But growing US interest in Mongolia has raised Chinese concerns alleging that Washington wants to control both Russia and China through Mongolia (An, 2005). Meanwhile, China recognized the importance of normalizing its relations with Mongolia, even when the latter was still perceived as a Soviet "satellite". At the same time, Mongolia served as a "buffer" by protecting critical points along the Chinese and Russian borders. Nevertheless, the Soviet collapse made the task easy as it also meant an end to Soviet "encirclement" of China, which was represented by the deployment of a huge number of Soviet forces along all sides of China's borders. It also reduced any major security threat to China from its neighbours to the north and northwest in the foreseeable future (Faust and Kornberg, 1995). Such dramatic changes in the geostrategic environment surrounding Mongolia, coupled with the open door policies of both China and Mongolia, set the tone for the improvement of their bilateral ties.

Mongolia's Search for Regional Identity

It was in the early 1990s when Mongolia's search for regional identity came to the forefront. During the Cold war period, Mongolia belonged to the Soviet-led security system that provided important security assurances, including military ones, to its client states like Mongolia, and so its identity was perceived as that of a Soviet bloc country. Now that the Soviet Union has collapsed and Mongolia began facing the security dilemma, Central Asia was identified as the region to which Mongolia belonged geographically, historically, and culturally (Baabar, 1995). But it was Northeast Asia that finally emerged as the obvious choice for Mongolia's new regional identity. The following key arguments can be made in favour of Mongolia's alignment with Northeast Asia (Kh. Olzvoy, 1996): (i) the Asia-Pacific, of which Northeast Asia is a vital part, was seen to be becoming an extraordinarily important region in the 21st century; (ii) Mongolia would come strategically under the economic "umbrella" of technologically advanced countries like China, Japan, South Korea, and the United States; (iii) Mongolia will have comparatively better relations with the Russian Far East and China's Northeast; (iv) Mongolia's eastern part, which is the repository of the country's mineral resources can be made readily accessible to the rest of Northeast Asia by road and railway, thus giving Mongolia another access

to the sea perhaps through Tumen river; and (v) it will give Mongolia the opportunity to serve as a land bridge between Northeast Asia and Europe. Nevertheless, Mongolia's national security concerns remained the main reason why it must establish close links with Northeast Asia as it would provide the needed bulwark to ensure its political, economic and strategic security.

Implications of China's "Periphery" Policy

One of the key developments in China's national security interests in the post-Cold War period has been Beijing's decision to maintain cordial relations with neighbouring countries in the Asia-Pacific region. Obviously, as part of its coherent foreign policy, Beijing developed an integrated regional policy known as "*zhoubian zhengce*" (periphery policy) or "*mulin zhengce*" (good neighbouring policy) to deal with negative situations, if any, with neighbouring countries (You and Jia, 1998). The policy was intended to explore "the common ground with Asian countries in both economic and security arenas by conveying the image of a responsible power willing to contribute to stability and cooperation in the region." (Zhao, 2004: 258) Economic motivation, thus, can be regarded as one of the main guiding principles in China's periphery policy,³ which also called for settling the remaining border disputes peacefully and preventing alliances of neighbours with what Beijing believed as "hostile" foreign powers, such as Russia, Japan and the US. In other words, establishing good relationships with neighbours was intended to provide "China with a more secure environment in its periphery as a leverage to increase its influence in world affairs" (Zhao, 2004: 258). It clearly reflects China's security concept which was described in a few succinct words in a working paper in 1999: mutual trust, mutual benefit, equality and coordination.⁴

Political Partnership: Reinforcing High-Level Contacts

China's policy towards Mongolia in the post Cold War era differs much from that of the Mao era which openly questioned Mongolia's sovereignty. However, since its reengagement, China has constantly pledged to respect Mongolia's independence and sovereignty. Now that Beijing's strategy is to pursue its policy of "peace, development and cooperation" which is an extension of Deng Xiaoping's policy of "peace and development" (Zhang, 2004: 342), there is much scope for maintaining a positive environment of mutual trust in Sino-Mongolian political and diplomatic relations. To this end, the level and frequency of exchanges of visits of several high level dignitaries have contributed much to the Sino-Mongolian rapprochement. In 1990, following the establishment of a multi-party political system in Mongolia, the first democratically elected Mongolian President P. Ochirbat visited China for the Sino-Mongolian Summit, which is described as a historic milestone in Mongolia's difficult relationship with China. Positive signs came from Beijing as well when in 1991 the then Chinese President Yang Shankun paid an official visit to Mongolia, it being the first such visit by a Chinese head of state since Zhou Enlai's in the 1960s. During this visit the two sides concluded several agreements resulting in the establishment of direct ties between various ministries, organisations, local areas and private firms from the two countries (US Department of State, 1993).

However, it was in 1994 that the two sides put a seal on their renewed diplomacy and commitment towards restoration of normalized relations when a new Treaty of Friendship and

Cooperation was signed during Chinese Premier Li Peng's visit to Mongolia. In fact, the treaty has become the guiding principle for future Sino-Mongolian relations. Article 1 of the Treaty stipulates that both sides remain committed to "develop their good neighbourly relations and cooperation on a basis of mutual respect for each other's independence, sovereignty, and territorial integrity, for the principle of mutual non-attack, non-interference in internal affairs, for equality of rights, for mutual advantages, and for peaceful co-existence."⁵ A landmark event in the post-Cold War period of Sino-Mongolian relations was a high profile visit of the Chinese President Jiang Zemin to Mongolia in July 1999. His visit appears to have been a clear sign of establishing China's strong presence in Mongolia, but at the same time reaffirming the conviction that unlike in the past China now respects Mongolia's independence and sovereignty and that "Mongolia's security is not to be viewed in terms of Chinese threat" (Soni, 2004: 234).

On Mongolia's side, diplomatic initiative found further expression when Prime Minister N. Enkhbayar paid an official visit to China in January 2002. While holding talks with Enkhbayar, the Chinese Prime Minister Zhu Rongji stressed three points for the development of bilateral ties, i.e., "to continue the exchange of visits of high-ranking leaders, to strengthen bilateral cooperation in the fields of culture and education, especially among the younger generations of the two countries, and to enhance the cooperation in international and regional affairs" (*Xinhua News Agency*, 8 January 2002). In June 2003, as part of a tour to expand Beijing's ties with its northern neighbours, Chinese President Hu Jintao, the successor of Jiang Zemin, visited Mongolia. The fact that Mongolia was included in the itinerary of Hu's first Presidential overseas trip only shows that the new leadership in China had also adopted a more active attitude towards developing all round friendly cooperation with Mongolia.

Significantly, in July 2004 Mongolian President N. Bagabandi, the successor of Ochirbat, visited China. This was followed by yet another high level visit in November 2005 by the newly elected President of Mongolia N. Enkhbayar who witnessed the signing of 10 cooperation agreements in the fields of mining, transportation, energy, infrastructure projects etc., apart from Mongolian acquisition of Chinese preferential export credit worth US\$ 300 million (Qin, 2005). Besides, a series of border-related Sino-Mongolian agreements were also signed, giving Mongolia for the first time in recent history a fully defined national boundary. It is to be noted that after almost four years of hard work on the border demarcation issue, the entire length of 4,677 kms. long Sino-Mongolian border was digitally mapped and 1,513 border demarcation posts were installed (Enkhbayar, 2005). More recently, in November 2006, Mongolian Prime Minister Miegombyn Enkhbold paid an official visit to China and witnessed the signing of several MOUs (Memoranda of Understanding), including a gift of 2000 tons of wheat from China to Mongolia, cooperation between the foreign ministries of the two countries as well as cooperation on exploration of oil and coal ("Mongolian Prime Minister" www.chinadaily.com.cn/china/2006-11/content_740343.htm).

As such the frequent exchange of visits by high-level delegations and information shared between the two countries have been contributing much to the development of their political relations. Such visits are aimed at (i) establishing the Sino-Mongolian partnership of good-neighbourliness and mutual trust, (ii) promoting mutually beneficial trade and economic links between the two countries, and (iii) strengthening their cooperation in international and regional affairs to make joint efforts for maintaining peace and stability in the region.

Economic and Trade Cooperation: Chinese Dominance

While the Cold War period saw stagnation in Sino-Mongolian economic and trade cooperation, the post-Cold War period has brought an unprecedented growth especially in bilateral trade. China became Mongolia's second largest trade partner in 1995 and the largest in 1999, when the trade volume between the two sides reached 162 million US dollars and 263 million US dollars respectively (See Table 1). Since then there has been significant growth in the succeeding years. A sharp growth in the volume of trade between the two sides was recorded in 2003, when it reached 440 million dollars, a growth of 21 per cent over 2002. It grew further in 2004 by a record 57.7 per cent to total 694 million dollars. And in 2005 it reached 860 million dollars, an increase of 24 per cent over the previous year. According to the Chinese Foreign Ministry sources, bilateral trade between the two sides hit 1.13 billion dollars in the first nine months of 2006, an increase by 88.8 per cent over the same period last year.

Table 1: Sino-Mongolian Bilateral Trade, 1987-2005 (Value in million USD)

| Year | China's Exports to Mongolia | China's Imports from Mongolia | Total value of Bilateral Trade | Trade Balance (+_) |
|------|-----------------------------|-------------------------------|--------------------------------|--------------------|
| 1 | 2 | 3 | 4 (2+3) | 5 (2-3) |
| 1987 | 20.27 | 4.61 | 24.88 | 15.66 |
| 1988 | 16.98 | 7.95 | 24.93 | 9.03 |
| 1989 | 19.86 | 8.67 | 28.53 | 11.19 |
| 1990 | 29.81 | 11.21 | 41.02 | 18.60 |
| 1991 | 25.96 | 20.07 | 46.03 | 5.89 |
| 1992 | 135.76 | 48.11 | 183.87 | 87.65 |
| 1993 | 81.59 | 69.36 | 150.95 | 12.23 |
| 1994 | 42.77 | 76.10 | 118.87 | (-) 33.33 |
| 1995 | 62.91 | 99.04 | 161.95 | (-) 36.13 |
| 1996 | 72.36 | 126.39 | 198.75 | (-) 54.03 |
| 1997 | 63.68 | 188.25 | 251.93 | (-) 124.57 |
| 1998 | 62.43 | 180.75 | 243.18 | (-) 118.32 |
| 1999 | 68.83 | 194.27 | 263.10 | (-) 125.44 |
| 2000 | 110.54 | 212.07 | 323.61 | (-) 101.53 |
| 2001 | 122.85 | 239.50 | 362.35 | (-) 116.65 |
| 2002 | 140.03 | 223.42 | 363.45 | (-) 83.39 |
| 2003 | 155.89 | 283.95 | 439.84 | (-) 128.06 |
| 2004 | 233.35 | 461.07 | 694.42 | (-) 227.72 |
| 2005 | 318.98 | 540.93 | 859.91 | (-) 221.95 |

Sources: Compiled by author on the basis of data collected from *Zhongguo waijiao gailan* [General Introduction to China's Diplomacy], from 1988 to 1995; *Zhongguo waijiao* [China's Diplomacy], from 1996 to 2006; *Zhongguo Dui Wai Jing Ji Tong Ji Nian Jian (China Foreign Economic Statistical Yearbook)* from 1994 to 2005.

China's share in Mongolia's exports and imports is increasing steadily, with its share of exports having more than doubled from 24.7 per cent in 1993 to 58.9 per cent in 2000 and its share of imports rising from 17.6 per cent in 1993 to 20.5 per cent in 2000. Ever since China became the largest importer of Mongolian goods in 2000 with a 58.9 per cent share in Mongolian exports, ahead of the US (19.9 per cent), Russia (9.7 per cent), and other countries (11.5 per cent), it retained that status even in 2005 with a 48.3 per cent share of Mongolian exports, thus

being ahead of the US (14.3 per cent), Russia (2.6 per cent), Canada (11.5 per cent), UK (8.2 per cent), ROK (6.1 per cent), and other countries (9 per cent) (Mongolian Statistical Yearbook, 2005). Similarly, China was declared as the second largest exporter to Mongolia in 2000 with a 20.5 per cent share in Mongolia's total volume of imports, second only to Russia (33.6 per cent) and ahead of Japan (12.0 per cent) and the ROK (9.0 per cent). Even in 2005, that status is being maintained with a 25.9 per cent share in Mongolia's total imports second only to Russia (35.3 per cent) and ahead of Japan (6.4 per cent), ROK (5.4 per cent) and USA (3.4 per cent). China's share in Mongolia's foreign trade has been steadily growing since 1999 (See Table 2).⁶

Table 2: Share of China and Mongolia in each other's Foreign Trade (Value in million USD)

| Year | Total Turnover of China's Foreign Trade | Mongolia's Share in China's Foreign Trade (%) | Total Turnover of Mongolia's Foreign Trade | China's Share in Mongolia's Foreign Trade (%) |
|------|-----------------------------------------|-----------------------------------------------|--------------------------------------------|-----------------------------------------------|
| 1999 | 360630 | 0.07 | NA | 29.5 |
| 2000 | 474290 | 0.07 | NA | 34.8 |
| 2001 | 509650 | 0.07 | NA | 30.3 |
| 2002 | 620770 | 0.06 | 1214.8 | 31.95 |
| 2003 | 850990 | 0.05 | 1416.9 | 34.10 |
| 2004 | 1154550 | 0.06 | 1890.8 | 35.49 |
| 2005 | 1422120 | 0.06 | 2249.2 | 36.52 |

Sources: Compiled by author on the basis of data collected from *Zhongguo Tong Ji Nian Jian* (China Statistical Yearbook), 1999-2005; *Guo Ji Tong Ji Nian Jian* (International Statistical Yearbook), 1999-2005; *Mongol Ulsni Statistikiin Imkhtgel*, 2005 (Mongolian Statistical Year Book, 2005); figure for total turnover of China's foreign trade in 2005 has been taken from MOFCOM at

<http://english.mofcom.gov.cn/article/statistic/ieindicators/200603/20060301696613.html>

Although Mongolia's main trading partners in China are the local traders from Inner Mongolia, there are traders from the coastal and southern regions of China as well, including Shandong, Guangdong and Fujian who have been taking part in the border trade with Mongolia since 1994. The extent of Mongolia's economic cooperation with China can be gauged from the fact that Chinese investment in Mongolia over the years has been impressive. China continues to be the biggest investor in Mongolia since 1998. With bilateral trade already booming, Chinese-backed private sector investment increased dramatically. As of October 2000, a total of 512 Chinese companies made their capital investments in Mongolia with large amounts going to animal husbandry, agriculture and service sector. According to another estimate, between 1990 and 2003, out of 3,042 foreign companies from 73 countries (Nachin, 2005), 1,059 Chinese companies invested 379.01 million US dollars, accounting for 40 per cent of the total foreign investments in Mongolia (Zhong, 2004). By the end of 2004, over 1,640 Chinese-invested enterprises were registered in Mongolia which made a total investment of 460 million US dollars, with the greatest amount going for the development of mineral resources.⁷ China's dominance, thus, is clearly visible in Sino-Mongolian economic and trade cooperation.

Nevertheless, due to its geographical disadvantages of being landlocked, which makes investors incur high transportation costs, Mongolia has not been able to draw the attention of many foreign investors. However, investor-friendly changes in mining legislation in 1996 helped develop some interest among foreign investors in mining, particularly gold mining, the production of which increased seven-fold in 1997 from what remained of it in 1993 (*Mongolia: Discovering New Minerals*, 1995). Due to China's geographical advantages, no other potential supplier or investor

can compete with it in Mongolia. There are three main reasons for this (Kaye, 1992): (i) Shipping costs to and from China's heartland are very low as compared to any other partner. Even for overseas trade, rail routes from China's Tianjin port are five times shorter than the Russian Far Eastern ports on which Mongolia used to be dependent earlier; (ii) China has an advantage of acquiring Mongolia's resources of timber, minerals and animal products in exchange for farm produce, light manufactured and capital goods that can also prove to be beneficial for Mongolia; and (iii) China's frontier province of Inner Mongolia provides Beijing with a ready supply of Mongolian-speaking marketing personnel.

Role of Inner Mongolia in Sino-Mongolian Ties

The Inner Mongolia Autonomous Region, the first national minority autonomous region in Chinese history, has played a significant role in Sino-Mongolian relations due to its (i) geopolitical importance, (ii) close proximity to Mongolia, it being the Chinese border region with Mongolia and (iii) similar ethno-cultural background as that of Mongolia. In terms of geopolitical importance, Inner Mongolia occupies 3,193 km, (i.e., 70 per cent of the borderland area) of the 4,677 km long Sino-Mongolian border. With its 15 banners (*hoshuns*) sharing common borders with Mongolia and having five trading ports of first and second-class categories, Inner Mongolia serves as a sort of bridge between China and Mongolia. Although the Mongols in Inner Mongolia and Mongolia are living in two different countries, ethnically they belong to one group sharing the same language (at least spoken), culture and lifestyle (Tumenceceg, 2002). This factor has contributed much to the development of the Sino-Mongolian border trade, as the central government in China has been exploiting all possible resources in Inner Mongolia in order to keep its foothold in Mongolia.

Significantly, since the first Sino-Mongolian border trade agreement was signed in November 1985 followed by the signing of another agreement in 1990 on border areas, emigration control points and their administrative system, there has been dramatic growth in the Sino-Mongolian border trade. Among the ten pairs of border posts, which have already been opened, Erlianhot (Inner Mongolian city) of China and Zamyn Uud of Mongolia now remain open throughout the year, the rest nine pairs being seasonal. Erlianhot City has become not only a main point of goods clearance, processing and manufacturing, trading and logistics but also a platform for exchange of communication between Chinese and foreign enterprises including Mongolian ones. At present border trade is being carried out between China's Inner Mongolia, Xinjiang-Uighur and Ningxia Hui Autonomous Regions, Hebei and Jilin provinces and Mongolia's related regions and departments. However, Inner Mongolia and Xinjiang have a comparatively larger share in the border trade with Mongolia due to the advantage of their being the direct border regions of China. Inner Mongolia is the largest trading partner of Mongolia as evident from Table 3, which shows that the volume of Inner Mongolia's export to Mongolia alone is much larger than that of Xinjiang's total trade volume with Mongolia. The increasing importance of Inner Mongolia in Sino-Mongolian ties becomes evident from the fact that the Municipal Government of Erlianhot and Mineral Resources Association of Mongolia jointly held "2005 Friendly Neighbour and Cooperation: China-Mongolia Enterprise Investment Negotiation Conference" in Erlianhot on November 15-16, 2005. This Conference provided a good opportunity for both Chinese and Mongolian enterprises to explore the mineral resources in Mongolia and contribute positively to local economy.

Table 3: Inner Mongolia and Xinjiang's Trade with Mongolia, 1998-2005 (in million US\$)

| Year | Inner Mongolia's Export to Mongolia | Xinjiang's Export to Mongolia | Xinjiang's Import from Mongolia | Total Value of Xinjiang's Trade with Mongolia |
|------|-------------------------------------|-------------------------------|---------------------------------|-----------------------------------------------|
| 1998 | NA | 3.90 | 1.78 | 5.68 |
| 1999 | 131.54 | 3.09 | 2.09 | 5.18 |
| 2000 | 84.87 | 3.80 | 3.31 | 7.11 |
| 2001 | 134.09 | 5.46 | 3.14 | 8.60 |
| 2002 | 148.53 | 3.08 | 1.12 | 4.20 |
| 2003 | 50.16 | 4.83 | 3.95 | 8.78 |
| 2004 | 84.64 | 9.64 | 6.80 | 16.44 |
| 2005 | 93.93 | 16.92 | 11.41 | 28.33 |

Sources: Compiled by author on the basis of data collected from *Nei Meng Gu Tong Ji Nian Jian* [Inner Mongolia Statistical Yearbook], 2000-2006 and *Xinjiang Tong Ji Nian Jian* (Xinjiang Statistical Yearbook), 2000-2006.

Obstacles to Sino-Mongolian Relations

Notwithstanding the exchanges of high-level visits to forge mutually advantageous relations and booming economic cooperation, though at the cost of Chinese dominance, some serious issues which can be potential obstacles/risk factors in the smooth conduct of Sino-Mongolian relations are identified below (Soni, 2006):

1. The Mongolian perception of potential Chinese threat to reoccupy its "lost territory" is still prevailing, Mongolia had been the Chinese frontier province under the Qing dynasty from 1691 to 1911 and the Chinese are alleged to have continued regarding Mongolia as a part of what it calls the "Middle Kingdom". This is a deep-rooted disagreement that can adversely affect the future relations between China and Mongolia.
2. The issue of "Pan-Mongolism" or Mongolian nationalism is still a bone of contention between the two sides. China is increasing its economic leverage in Mongolia in order to ensure the non-involvement of Mongolia in any kind of ethnic insurgency by Inner Mongols for the Pan-Mongolian cause.
3. The main products exported to Mongolia from China such as flour, rice, sugar, fruits threaten not only Mongolia's indigenous food industries but also its food security, while Mongolia's export products such as copper, cashmere, skin, hide, and their markets are becoming dependent on China, thus there is the risk of Mongolia turning into a raw material supplier of a foreign country.
4. Beginning in the late 1990s, Chinese traders started buying raw cashmere from Mongolia's domestic market and exported it to China for domestic processing. Consequently, this has drained Mongolia of its cashmere supply and destabilized its processing plants. Mongolia, which currently contributes 20 per cent to the world cashmere market, may face unequal competition with China on the world market.
5. Despite promising development in the past few years, problems still exist in terms of differences over quality, supply, payments or even the price of products between the two sides. Besides, mismanagement at the border posts gives way to illegal acts, such as tax evasion and smuggling that appear to be affecting the reputation and mutual confidence of both sides and hence the foreign trade. Even Mongolia accuses the Chinese customs authorities of levying unfairly high taxes and other duties on Mongolian traders and their vehicles. This factor points to the one-sided nature of border trade that favours Chinese traders.

6. China offers ever-increasing trade and investment facilities in return for Mongolia's acquiescence to the "One China" policy and its approval of the Chinese ban on visits to Mongolia by the Tibetan spiritual leader the Dalai Lama. It is to be noted that in 2002 when the Mongolian side allowed the Dalai Lama to visit Mongolia, China reacted angrily and stopped train traffic between the two sides for several days, thereby jeopardizing the steady flow of essentials to Mongolia.

7. Mongolia has been excluded from the discussions on the possible route for the oil and gas pipeline that is expected to run from Russian Siberia through eastern Mongolia into China. Since the pipeline holds tremendous potential for opening a new revenue source for cash-strapped Mongolia, there are fears that Mongolian absence from the talks the two giant neighbours will hand the Mongolians a *fait accompli* wherein the two neighbours dictate their own terms.

8. In recent years China has also become increasingly concerned about Mongolian-US relations, especially after US President Bush's November 2005 visit to Mongolia. Since Mongolia views the US as its "third neighbour", China regards it as a strategic threat to its own interests in Mongolia. Also, instead of balancing between China and Russia, Mongolia is now tasked with maintaining relations with two new geopolitical competitors, China and the US.

Future Trends in Sino-Mongolian Relations

In order to establish and maintain a peaceful security environment in its periphery, China seeks to act as a benign power that focuses on forging viable political, diplomatic and economic relations with its Asian neighbours. Geographical proximity and economic complementarities make China and Mongolia natural partners for increased economic and trade ties. However, it remains to be seen whether this growing economic engagement will lead to an expansion of China's soft power, i.e. "a nation's ability to get what it wants by attracting and persuading others to adopt its goals, instead of through blunt economic and military suasion (Murphy, 2004: 32-33)." Potential areas yet to be tapped for Chinese investments in Mongolia seem to be mining and oil sectors.⁸ Large deposit of oil in the Tamsag valley of Dornod province as well as several new mining deposits of copper, molybdenum, gold, fluorspar, uranium and coal have been discovered which largely remain untapped. Even though the Mongolians recognize that their country's growing economic dependency on China is unavoidable, they are eager to have Chinese cooperation at least in mining and oil mainly because Mongolia has vast natural resources and China has the investment capacity to spend in their extraction. Some trends in future Sino-Mongolian relations can be identified:

1. Despite the fact that better Sino-Russian relations have substantially lessened Mongolia's buffer role in the security policy of its two neighbours, China still considers Mongolia as a country of "crucial geopolitical interest."

2. Since China shares its longest land border with Mongolia, maintaining a cordial relationship with Ulaanbaatar is of paramount importance for the security and stability of northern China, including Xinjiang, Inner Mongolia and the north-eastern provinces.

3. The political relationship between Beijing and Ulaanbaatar has developed rapidly, especially since the late 1980s when the level and frequency of high-level visits between the two sides have been considerably higher than those between Russia and Mongolia. This would continue to contribute positively towards confidence building in Sino-Mongolian relations.

4. China's offer of Mongolian usage of its Tianjin port gave Ulaanbaatar a main route to the Asia Pacific in the early 1990s. This created a great opportunity for Mongolia to develop trade

relations with the rest of the region. Obviously, Tianjin would continue to be an economic lifeline for Mongolia since Mongolian exports to the outside world are transported through this port.

5. With its continued economic growth and depleting natural resources, China needs Mongolia's natural resources for its rapidly developing industries, particularly coal, gold, iron, uranium and other precious metals. Therefore, China's investment interest in Mongolia's strategically important mining and oil sectors may increase in the near future.

Conclusion

Since the post-Cold War era has signified the end of strategic conflict, the whole dynamics of Sino-Mongolian relations has undergone significant changes paving the way for confidence building in the hitherto strained relations. Now economics and politics are the key factors in securing each country's internal and external security. And so long as China's influence in Mongolia and the rest of the world remains primarily economic in nature, there is little or no danger to Mongolia's territorial security. On the other hand, a stable and neutral Mongolia is also vital for China's own security interest which is economically motivated as Beijing moves to great power status seeking to build up its power base in Northeast Asia. However, it remains to be seen whether Mongolia's new regional identity as a Northeast Asian country provides equal opportunities for both Ulaanbaatar and Beijing to gain economic prosperity. Yet Chinese leadership appears to be content with Beijing's regional policy as applied to its relations with Mongolia. It has been both economically as well as strategically advantageous for strengthening China's growing role as an Asian, if not a global power.

Endnotes

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1. For more on Gorbachev's Vladivostok Initiative, see Sharad K. Soni, *Mongolia-Russia Relations: Kiakhta to Vladivostok*, New Delhi: Shipra Publications, 2002, pp.218-221.
 2. Baabar (Bar-Erdene Batbayar), *Twentieth Century Mongolia*, Cambridge: The White Horse Press, 1999, p.244. This work is divided into three parts in which "Book Three" is entitled as "A Puppet Republic", see pp.243-413.
 3. The importance of economic diplomacy is being stressed in China's overall foreign policy, see Yang Fuchang, Qin Yaqing and Heng Xiaojun, *Contemporary China and its Foreign Policy*, Beijing, World Affairs Press, 2002, p.195.
 4. "China's Position Paper on the New Security Concept", China's Working Paper submitted to the ARF Foreign Ministers Meeting, 31 July 1999 cited in Pan Zhenqiang, "China's Security Agenda in 2004, *Foreign Affairs Journal*, Chinese People's Institute of Foreign Affairs, Beijing, No.71, March 2004, p.18. For more on a new security concept featuring mutual trust, mutual benefit, equality and cooperation, see *White Paper on China's National Defence in 2002*, Information Office of the State Council of the PRC, Beijing, 2002, p.5.
 5. For the full text of the China-Mongolia 1994 Treaty see *Mongolian Defence White Paper, 1997-1998*, Ministry of Defence of Mongolia, Ulaanbaatar, 1988, pp.93-95.
 6. See Xiu Jie Zhang, "Monggu de guojia anquan zhanlue ji zhongmeng anquan zhanlue guanxi" [National Security Concept in Mongolia and its Impact on Sino-Mongolian Security Relations], *Contemporary Asia and the Pacific*, Beijing, No.11, 2005, pp.25-30.

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7. See “Neighboring China, Mongolia keen on enhancing relations,” at http://english.people.com.cn/200511/30/eng20051130_224499.html
 8. See Yan Xin, “Zhongmeng jingmaoguanxi xianzhuang yu qianjing” [Sino-Mongolian Economic and Trade Relations: Present and Future], *Peace and Development Quarterly*, No. 4, 2003, pp.25-27.

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