

Economic security of Mongolia in context of Northeast Asia prospects

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Abstract—This paper is devoted to the analysis of economic security of Mongolia in the context of Northeast Asia prospects. Initially there was international economic participation in the project of the Northeast Asia (NEA). However, in NEA there are many controversial issues and potential conflicts. At the moment, there are trends in NEA development by two models: a block model and a common security model. Mongolia, as a part of NEA, is interested in strengthening multilateral cooperation in the region and on the whole at the level of international regions, based primarily on the economic component. In this case, the national security interests of Mongolia will coincide with the region-wide interest in maintaining security and stability.

Keywords—Economic security, Mongolia, the Northeast Asia, international trends

I. INTRODUCTION

Regionalization is one of the main trends in the development of current international relations. Common interests of neighboring states are the basis for this process. Northeast Asia (NEA) is one of the major international regions. It includes such countries as Russia (Siberia and Far East), the People's Republic of China, Mongolia, the Democratic People's Republic of Korea, the Republic of Korea and Japan. China, Japan and both Koreas may be considered as a geographical, historical and cultural «core» of NEA. Moreover, due to the special military-political and economic presence, the United States play a special role in the region.

Initially, there was international economic cooperation in the idea of NEA. China, Japan and South Korea have already become the largest trading partners for each other in the region. Trade among three nations accounts for 17% of the world trade and 90% of the East Asian trade [1]. Now the three Northeast Asian nations produce 16% of the world GDP [2]. All in all, the NEA concentrates a great economic

potential: 20% of the continental area of the whole Asia, 10% of its population, 70% of the gross national product [3].

Russia, the PRC and Japan are among the top ten largest national economies in the world. Japan and South Korea are the leaders in the field of high-tech products and investments. Russia, Mongolia, North Korea have significant mineral reserves. Furthermore, Mongolia in recent years shows record levels of its economic growth. Thus there is an economic complementarity of the NEA national economies.

II. RESULTS AND DISCUSSION

Since the beginning of the 1990s, there are informal economic forums in NEA, aimed at strengthening economic integration:

1. NEA Economic Forum and Economic Conference of the NEA, concerned regional economic cooperation at the level of representatives of business and expert elites.
 2. Gas Forum Northeast Asia, focusing on energy cooperation.
 3. The Baikal Economic Forum, Russia, initiated in 2000, which formulated the concept of integration of Russia in the Asia Pacific and NEA.
 4. Forums «ASEAN Plus Three» with the participation of China, Japan and the Republic of Korea.
- Also there are a number of major economic projects that involve the region.
1. Construction of oil and gas pipes from Russia to China and to the Pacific coast.
 2. Connection of the Trans-Siberian railways with the Korean Peninsula
 3. Modernization of Mongolian railways to enhance their transit function.
 4. The Tumen River Project (Tumentszyan)

Thus, along with Europe and North America, NEA is the most economically important region of the world.

A relative peaceful situation in East Asia is preserved since the end of the cold war. In the cold war era, the East Asia has experienced the Korean war and the war of Vietnam; these are two most destructive wars throughout the world in the cold war era. Since the end of the cold war, East Asia has been pacified. The situation is generally peaceful, though East Asia is the only region in today's world where "a cold-war-like tension" still exists, and from time to time, some violent frictions took place, however, no international or civil war has occurred in East Asia since the end of the cold war.

A relative peaceful situation can be retained in the region because of five reasons. First, the end of the cold war turned a separate world into a more integrated one; the achievements of high technology in transportation and communication facilitate mutual understanding. Second, countries in the region focus their strategies on economic development, cooperation, instead of confrontation, on creation better conditions for nation's development. Third, ideology is no longer the major factor for shaping bilateral relations, the end of the cold war makes the relationship between countries with different political and social systems easier. Fourth, the main players of the region are committed to make the cake larger to increase their shares instead of going into a zero-sum game. And last but not least, bitter experiences of the cold war prevent players in the region from going back to the military confrontation.

However, NEA is not just one of the most important economic centers. Another important aspect is the political relationship between the region's nations. In NEA there are many controversial issues and potential conflicts. Experts currently take into account a number of sharp territorial and political disputes, which involved Russia, China, Japan, the Democratic People's Republic of Korea, the Republic of Korea.

TABLE I. TERRITORIAL DISPUTES IN NORTHEAST ASIA

Dispute territories	Dispute's participants
Kurile Islands	Russia and Japan
Senkaku	China and Japan
Lyankur	the Republic of Korea and Japan
Iodo	China and the Republic of Korea

The challenges are results of a series of distrust or deficit of trust among main actors in the region. First, there is a very strong distrust between the DPRK and ROK. Both the North and the South have drawn their own conclusions from the tension. And these conclusions may be counter-productive for the future of the Peninsula. The DPRK realizes once again that their military capabilities are not strong enough in front of the ROK - the US alliance. Logically, they will make more efforts in military build-up. The "denuclearization" of North Korea seems increasingly unrealistic. The conclusion of the ROK is that it is the only force that can make the North Korea sober, and that a more assertive position should be adopted towards the DPRK in the future. Logically, the ROK will strengthen its

military capabilities even more and reinforce the alliance with the US.

Secondly, a very strong distrust exists between the DPRK and Japan. Japan is viewed by the DPRK not only as an aggressor which invaded Korea in the past, but also a present threat to the DPRK because Japan will probably be an ally of ROK and the US if a new war breaks out in the peninsula. Japan side views DPRK as a threat which not only had kidnapped Japanese civilians but also threatens Japan with its strategic missiles and nuclear bombs.

Thirdly, a deficit of trust exists between the ROK and Japan. Though the recent evolution of the situation in East Asia makes the ROK and Japan strategically closer, still they have a dispute over the Islands of Tokdo, and the south Korean people show distrust towards Japan not only because of the invasion of Korea by Japan in the past, but also because of the efforts of Abe's administration to modify the constitution in order to have the right to participate in the wars abroad.

Fourthly, there is a deficit of trust between China and Japan. Chinese public can never understand why there is no legislation in Japan to prohibit all efforts to rehabilitate the aggression war in the past and why the war criminals are still honored in national shrine as Yasukuni. Japanese public might thinks that China will one day use force to take over the effective control of the Diaoyu Islands.

Fifthly, there is a deficit of trust between Japan and Russia. Due to the disputes on south Kuril Islands, Russia and Japan cannot conclude the peace treaty so theoretically they are still in a state of war.

Sixthly, deficit of trust among China and some South China Sea states caused disput. Some of these countries fear China's rising military capability, so they try to involve external powers into the South China Sea region to balance China. This makes the dispute more difficult and complicated.

Seventhly, deficit of trust between China and the US. The US worries about the rise of China power, thinking that the rise of China will challenge US's dominant position in the world, especially in the Asia and Pacific region. Chinese public think that the US is the major obstacle to China's reunification, that the US is the major sponsor of all the anti-Chinese activities all over the world.

There is a deficit of trust between the US and Russia. The recent Ukraine crisis brings the US-Russia relationship to the brinks of another cold war.

All these deficits of trust constitute the major challenges to the security in East Asia.

In addition, there is a poor historic and psychological background of Japan's relations with China, both Koreas and Russia. Pyongyang and Seoul relationship is extremely tense. All this makes us talk about the existence of a large potential for a conflict in the region. Mongolia is a good exception. It has no territorial disputes and maintains friendly relations with all the countries of NEA.

There is a widespread view among some experts that the emergence of a new strong player in the region will automatically exacerbate the regional security, changing the balance of power, and will lead to an open clash. This approach can be called a block model for the future of NEA. The basis of this model is the principle of confrontation and domination of political interests over economic ones. Another model of relations in the region can be called «security community» [4], that is such order in which a process of maintaining regional security and stability will involve all countries of NEA. The condition for such model should be mutual trust across the region. The basis of cooperation will be a high level of economic interdependence.

At the moment, there are trends in NEA developments under both selected models. On the one hand, there is the possibility of deterioration of relations within the NEA based on territorial, geopolitical, historical contradictions. Some experts even specify future military-political blocs in the region – the US-Japan-South Korea and China-Russia-North Korea. On the other hand, region's countries have accumulated rich experience of solving many contradictions over the past few decades. For example, the common interest of China, South Korea and Japan in the field of economic cooperation at the beginning of the XXI century compensates territorial, political, historical and psychological historically existing contradictions. The same can be said about the modern relationship between Russia and China successfully resolved all their territorial disputes. Potential integration in NEA is extremely high, and the economy of its members so significant that exacerbate conflicts and their transition into the military phase can cause a global political and economic crisis.

In general, the absence of armed conflict and the escalation of tensions in NEA for several decades is evident in the region. This is especially pronounced amid escalating military conflict in Europe and the Middle East. One of the most important factors of such regional stability is a high level of economization of relations among major NEA nations. In this regard, strengthening economic integration in NEA is not just a factor of economic development, but also the strengthening of regional security.

Because of these challenges, the security situation in East Asia is very complex. This complexity becomes more serious and dangerous if the following four phenomena in the region are taken into consideration.

First, a regional integration still remains an unreachable dream in East Asia. Though the leaders of China, Japan and Korea have already reached a common understanding that a bright future of Asia lays in the integration of the region and that they will joint their efforts to build towards a East Asia Community, however, due to the unfortunate history, to the territorial disputes, to the difference of political system and living standard, etc, a real community like EU remains unreachable for still a very long time.

Second, East Asia is the region with the most intensive conventional and nuclear armaments in today's world. The region around the demarcation line between the DPRK and the ROK is the most militarized zone in the world and the two

sides are working hard to increase even more their military potential. With regard to the nuclear arms, besides the Russia, the US and China which are recognized by the United Nations as legitimate nuclear countries, India and Pakistan already have their nuclear bombs. The denuclearization of Korean Peninsula seems to be far away from the reality. Noone knows what reaction of Japan and ROK will be.

Third, the region is featured with most complicated military alliances in the world. The United State has a bilateral military alliance with Japan and Korea, a kind of trilateral alliance is actually under consideration among these three countries. Besides, as the most important member of the NATO, the United States becomes a linkage between Japan, Korea and the NATO. China has a historical alliance with the DPRK signed in the wake of Korean war. Though the relationship of China with US, Japan and the ROK has fundamentally changed, however, if China put an end to this alliance, it will be counter-productive for the stability and the peace in the peninsula.

Fourth, East Asia still lacks a binding security cooperation mechanism. Till now the security structure has been based on military alliances and deterrence. A zero-sum game still prevails over the security situation in East Asia. The increase of security of certain countries means the decrease of the security of other countries. The regional cooperation mechanisms such as ASEAN plus three, APEC, East Asia summit, annual meeting among China, Japan and Korea, Treaty of amity and cooperation in South East Asia, etc, do not cover the security field. Till now, a security cooperation mechanism which involves all parties concerned in the region has not existed.

In the circumstances, there is still a big deficit of trust among East Asian countries; the security situation is extremely complex with the most intensified arsenals and most complicated military alliances. There is still a lack of a mechanism of security cooperation; therefore, China takes the following measures to deal with the regional security.

Firstly, China promotes a new concept of security. China puts forward a new concept of security since the beginning of the new century, that is all countries should seek a common security based on mutual trust, mutual benefit, equality and cooperation. In the recent Shanghai Summit of CICA, President Xi Jinping proposed a concept of comprehensive, common, cooperative and everlasting security. This new concept of security has been adopted in the final declaration of the CICA summit, becoming thus the Asia concept of security. The key of this new security concept is to give up the cold war logic of zero-sum game security.

Secondly, China strengthens the strategic communication with the US. As the US is the most important actor in the Asia Pacific region, China pays increased attention to strengthening a strategic communication with the US. The two countries have decided to establish a mechanism of economic and strategic dialogue. A dozen of ministers of two sides take part in every round of the dialogue. President Xi Jinping and President Obama agreed on building a new type of relationship among major powers. The inner-essence of this new type of relationship among major powers is to avoid

conflicts between an emerging and an established power in creating a win-win situation.

Thirdly, China makes efforts to promote a real reconciliation between ROK and DPRK. Looking forward to its own reunification, China understands very well the aspiration of Korean people to realize the reunification of the Peninsula. China was involved twice in wars in modern history because of Korean Peninsula, the war of 1894 and the war of 1950. These two wars had both very heavy consequences upon China's development. That is why China makes every effort to facilitate the stability and peace of the Peninsula based on a real reconciliation among the DPRK and the ROK. To find a peaceful solution of nuclear issue of North Korea, China has held and is working hard on the resumption of the six parties talks.

Fourthly, concerning the disputes over the islands and maritime rights, China advocates the principle of direct negotiations among parties concerned, instead of making it a hot topic in international conferences. Debates at the international conference on territorial disputes may achieve nothing except making public opinion more emotional in the countries concerned. If it is not possible to find an acceptable solution, China proposes putting aside the dispute over sovereignty and proceeding to a joint exploitation of natural resources. If a joint exploitation of resources is still not possible, the status quo should be maintained; that means no one is allowed to take unilateral measures to complicate the situation.

History of Mongolia in the XX century has shown consistent concern about its national security from external factors. These ones were presented by policies of the great powers. Mongolia had gained its independence from Qing and China, relying on the support of the Russian Empire and the Soviet Union. Defense policy of the Mongolian People's Republic was fully based on the Soviet-Mongolian military and political alliance. As a result, Mongolia's foreign policy strategy has become the most important factor of ensuring its national security.

The collapse of the Soviet Union and the disintegration of the socialist system had transformed the base of Mongolian national security strategy. The new foreign policy strategy was called «olon tulguurt» («multi-pillar»). It means maintaining good neighbor relations with geographical neighbors - Russia and China, as well as building relationships with the so-called "Third neighbor" («guravdugaar hersh») - the US, Japan, Germany and other states and international organizations. In particular, one of the most important foreign policies declared «increased participation in the political and economic integration processes in the region ... including in Northeast Asia» [5]. The essence of the new strategy was to ensure the country's security by balancing the impact of major foreign partners and to create a balance in its relations with the outer world.

However, changes have occurred not only in the foreign policy of Mongolia, but also in the perception of the nature of national security and how to maintain it. Along with the military component, Mongolia has developed the ideas about social, human, environmental, information, culture security.

So there was a «broadened and deepened» perception of security. However, special attention was given to economic security.

It should be emphasized that the current conditions of competition for the influence in the region is unique in terms of the historical experience of the XX century. The beginning of the last century was marked by the release of Outer Mongolia from the Qing Empire with the Russian Empire support (including the military support). Further developments related to the attainment of Mongolia's independence and national sovereignty were also associated with the use of force (whether its straight use or threat of use). This was the case with the struggle against the Chinese occupation and troops of Baron Ungern in the battles against Japan on the river Khalkhin Gol, confrontation in the 1960-80s with the PRC. Only the withdrawal of Soviet troops from Mongolia in the late 1980s led to the situation when the country was no longer seen as the arena of direct military confrontation between the great powers. These changes have become a precondition for the radically new international political situation around Mongolia, characterized by non-military rivalry between the great powers.

Mongolia is no longer regarded as an area of military confrontation of the great powers. An important principle of the foreign policy of the post-socialist Mongolia was not joining any military-political blocs. The constitution of Mongolia prohibits to place foreign military bases on the territory (Article 4, paragraph 3). Five nuclear powers recognize the territory of Mongolia as a nuclear weapon free zone. These changes have become the basis for a fundamentally new international political atmosphere in the region, characterized by non-military rivalries of the great powers for influence.

In recent years, the special role of the economic security of Mongolia allows modern economy of Mongolia to go through a boom, which is linked with the development of the mining industry. Vast resources of coal, copper, gold, uranium and other minerals are considered by the government as a major source of economic wealth of Mongolia. In 2012, the share of the mining sector in Mongolia's exports amounted to 89.2%: coal - 43.7%, copper concentrate - 22.1%, iron ore - 13.7% [6].

One of the key conditions of Mongolia's economic development is the involvement of foreign companies to develop large-scale mining. Moreover, the issue of cooperation with foreign companies plays an important role in Mongolian foreign policy strategy and national security. At the beginning of the 1990s, having proclaimed a «multi-pillar» policy strategy in relations with the world, Ulaanbaatar tends to follow it in the economic cooperation not willing to give any preference to any country. It creates a situation of competition between foreign companies. This competition is marked as the geopolitical rivalry of great powers. Mongolian officials comment on the situation emphasizing the connection between the geographic isolation of the country between Russia and China, and the problem of choosing a foreign investor for large mineral deposits. Most large foreign companies, interested in the mining sector of Mongolia, are

supported by their government or they are state companies themselves.

However, at present it is difficult to talk about a desired economic balance.

Since the beginning of the 1990s China has began to increase its economic influence in Mongolia. In the first decade of the XXI century, the importance of China as a key foreign economic partner of Mongolia only increased. So, if in 2008, China's share in foreign trade of Mongolia was 43.8% in 2012, just four years later it was equal to 53.2%. For comparison, Russia's share in the same period - 23.0% and 17.3%, respectively, of other countries - 33.2% and 29.5% [7]. In the total volume of foreign investment in Mongolia's economy over the last 20 years (1991 - 2011), investment from China accounted for nearly 50% [8].

In fact China is a monopolist in the sphere of Mongolia's exports: the main share of agricultural products and products of the mining industry purchased by the Chinese side. In percentage terms, the share of Chinese Mongolian exports by the end of the first decade of the XXI century has reached 92.6% [9]. China is increasingly becoming a hegemon in the foreign trade with Mongolia.

At the moment, there is a high probability of economic China dependence on the state of Mongolia's mineral market. Chinese companies focus on buying large mineral deposits of Mongolia for further production and transportation for processing on their territory. The most preferred option for China is a direct access to raw assets (natural resources and infrastructure) through the licenses allowing the exploration and extraction of raw materials, participation in the capital of companies, etc. This situation occurs in the oil, coal, gold industries.

An adopted in 2011 new Foreign Policy Concept of Mongolia aims to achieve the full mining and processing of agricultural raw materials, production of the end value-added and import-substituting products.

The "Third neighbor" countries due to some objective reasons (geographical remoteness of Mongolia, poor communications, narrow domestic market of Mongolia) cannot be stable external partners of Mongolia and unable to form a long-term equivalent third pole of economic influence in the region. As the authors showed, the share of third-country nationals in the foreign trade of Mongolia tends rather to decrease than to increase. Also, it is worthwhile noting that the most Western companies are interested only in economic profit, considering the Chinese market as the only potential market for the mining industry output. For example, «Peabody Energy» has a joint venture with a Chinese company «Winsway Coking Coal» to extract Mongolian coal and to sale it subsequently to China. Australian company «Rio Tinto» that produces Oyu Tolgoi also intends to implement that on the Chinese market. Canadian company «Western Prospector Group», still owning the licenses to develop uranium deposits Gurvan Bulag, preferred to sell their shares to a Chinese company. A similar story took place in the event of a sale of assets of oilfield Tamtsag to the US company «Soko International» and Chinese company «Petro China».

It is evident that in the 2000s, the change in the pre-existing balance of power became apparent; there has been a one-sided perspective of Mongolia binding to its southern neighbor. This contradicts to one of the points of Mongolia's Foreign Policy Concept about the relationship with large powerful nations of the world. The Foreign Policy Concept, in particular, developed the following position:

In developing economic relations and cooperation with foreign countries, Mongolia safeguards against any adverse impact on its economic security, against becoming dependent on any given country. [10]

Format multilateral relations within the international economic regions may become one channel of diversification of foreign economic relations for Mongolia. One of them is NEA.

TABLE II. TOTAL FOREIGN TRADE TURNOVER OF MONGOLIA WITH THE COUNTRIES OF NEA 2011-2015 \$ MILLION (SHARE IN %)

Country	2011	2012	2013	2014	2015
China	6463.7 (56.5)	5921.2 (53.2)	5528.9 (52.0)	6841.3 (62.1)	5300.0 (62.6)
Russia	1721.0 (15.0)	1927.0 (17.3)	1623.6 (15.2)	1610.9 (14.6)	1097.9 (12.9)
Republic of Korea	394.6 (3.5)	480.0 (4.3)	520.4 (4.9)	366.1 (3.3)	325.3 (3.8)
Russia	501.2 (4.4)	507.2 (4.5)	454.7 (4.3)	392.2 (3.6)	295.0 (3.5)

Data presented in Table II indicate that at the moment, Mongolia's integration into the economy of NEA is relative. More than half the turnover of the country is associated exclusively with China.

In this regard, the project of construction of the railway from large mineral deposits in Mongolia through the Russian territory to the markets of South Korea and Japan is an important factor in the integration of the Mongolian economy in NEA. Another promising project is the creation of a transnational network of railways that will link the NEA to European markets through Mongolia. This projects correspond to the Foreign Policy Concept:

There should be integration into the international transportation, information and communication networks, particularly those in North-East Asia [12].

III. CONCLUSION

Thus, the potential diversification of foreign economic relations by intensifying cooperation with Mongolia in the SCO energy projects and the Eurasian Economic Union has not been exhausted. Thus, in the interests of Mongolia, strengthening multilateral cooperation in NEA and, on the whole, at the level of international regions is based primarily on the economic component. In this case, the national security interests of Mongolia will coincide with the region-wide interest in maintaining security and stability.

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