

Х.Цэвэлмаа, Ч.Хашчулуун  
Khashchuluun Ch.[1], Tsevelmaa Kh.[2]

[1] National University of Mongolia, Doctor of Economics, Associate Professor,  
khashchuluun@num.edu.mn

[2] National University of Mongolia, Doctor of Economics, Associate Professor at NUM,  
Professor, tsevelmaa@num.edu.mn

“Мегатөслүүд болон дипломат  
харилцаа”

Money, Finance, Wealth Journal 2024  
MEGAPROJECTS AND DIPLOMACY

# Economic diplomacy

- The interconnected development of diplomatic relations, foreign trade, and economic ties has been evident throughout history. This interconnectedness has led researchers to adopt the term "economic diplomacy."
  - The fundamental concept revolves around nations leveraging their foreign relations to enhance their domestic economic capabilities, aiming to boost state revenue and improve social well-being.[1]
  - this article aims to explore Mongolia's endeavors in this realm, assessing its success in integrating foreign technology, investment, and expertise, and showcasing any exemplary experiences it may have achieved in these domains.
- 
- [1] The Foreign service journal, Jan. 2019, T. WAYNE,
  - <https://afsa.org/what-economic-diplomacy-and-how-does-it-work>

# World experience

- Countries like the Netherlands, the United Kingdom, Germany, Japan, the Republic of Korea, and more recently, the People's Republic of China and Vietnam, have showcased notable experiences in leading global economic development and industrialization.
- They have achieved this by effectively leveraging international markets, emphasizing exports, and capitalizing on foreign investment opportunities to a considerable extent.
- The shared success among these countries lies in their ability to
  - adeptly absorb new knowledge and advanced technology,
  - leverage global funds and skilled workforce when needed,
  - adapt these resources to suit their own country's unique characteristics.

# Era of megaprojects and economic diplomacy

- In economic collaboration, joint large-scale investment projects, often called megaprojects[1], hold significant importance.
- trade between distant countries may not be extensively developed, so the implementation of a large investment project can lead to:
  - 1. Implementing suitable government policies and specialized regulations to facilitate the **research and localization** of advanced foreign technologies.
  - 2. Enhancing **social capacity to utilize, innovate, and domesticate new technologies through investments in education, knowledge development, research, and analytical capabilities.**
  - This also fosters an **institutional environment conducive to adopting advanced foreign technologies through appropriate laws, regulations, and customs.**
  - 3. Emphasizing three crucial interconnected facets: **identifying funding sources to support technology adoption and, if needed, obtaining financing from the international market.**
- [1] Procedia - Social and Behavioral Sciences 119 (2014) 495 – 50
- The Economic Evaluation of Megaprojects – Social and Economic Impacts
- Jana Korytárová\*, Vít Hromádka

# China: infrastructure and transportation

- Mongolia's neighbour countries
- China: "One Belt, One Road" initiative has been a central focus over the past decade, encompassing 141 countries and 31 international organizations.
- The initiative aims to garner a total investment of 1 trillion US dollars.
- China is developing various roads, including the China-Mongolia-Russia (Naushki-Moscow)-Belarus (Brest)-Poland-Germany route. This Chinese project aims to connect regions where 63 percent of the world's population resides. Between 2013 and 2021, China has invested over 50 billion US dollars in the countries involved in this regional initiative. As part of this regional project, 56 trade zones have been established across 20 countries, creating 180,000 jobs. These zones have contributed 1.1 billion US dollars in tax revenue to the budget. Additionally, within the One Belt One Road project framework, Chinese companies have invested 2.95 billion US dollars in 43 countries. They have also inked 156 contracts for infrastructure projects valued at 34 billion US dollars with 61 countries.

# Russia: Gas, oil and electricity

- Russia: megaprojects like "North Stream," "South Stream," and "Blue Stream" , "Power of Siberia"
- the Northern Pipeline comprises two lines designed for gas transportation, each with a capacity of 27.5 billion m<sup>3</sup>, enabling a combined transit capacity of 55 billion m<sup>3</sup>. The infrastructure was laid beneath the Baltic Sea to construct these pipelines, spanning from Porto Vaya Bay near Vyborg to the German coast in the Greifswald region, covering 1,224 kilometers.
- the "Power of Siberia" or "Sila Siberia" natural gas pipeline, which served as China's primary gas conduit, was constructed on September 1, 2014.
- Spanning a length of 2,200 kilometers with a diameter of 1,420 millimeters and operating at a pressure of 9.8 MPa (100 atm), this project is instrumental in securing the natural gas supply under the largest natural gas contract in history, signed between Russia and China on May 21, 2014.

# Central Asia and Vietnam

- In Central Asia, the CAREC (Central Asia Regional Economic Cooperation) program, initiated by the Asian Development Bank, was effectively executed, providing 24 billion US dollars.
- Vietnam has effectively established significant export-oriented factories in collaboration with the United States and South Korea.
- In 2006, Intel Corp. initially announced a \$300 million investment in an assembly and testing plant in Vietnam. Within a year, their total registered investment surged to \$1 billion.
- The \$1 billion facility situated in Ho Chi Minh City commenced operations in 2010. Later, in November 2014, the company expanded the plant by adding a new CPU production line.
- Regarding the oil industry, a licensed 400-hectare plant backed by four companies—PetroVietnam, Kuwait Petroleum International, Japan's Idemitsu Kosan, and Mitsui Chemicals—produces various petroleum products such as LPG, Ron 92 and 95 fuel, diesel fuel, fuel oil, jet fuel, polypropylene, para-xylene, benzene, and sulfur. The investors raised \$2.8 billion in 2013, marking the plant as the largest refinery and petrochemical project ever approved in Vietnam. The Vietnam-Japan oil refining project, valued at 9 billion US dollars, significantly enhances the country's energy independence, and bolsters its national security.

# Mongolia

- For Mongolia, the era of mega-project implementation began with the initiation of the Oyu Tolgoi project in 2009.
- Regarding Mongolia's economic security, the direction taken for executing this venture and other significant projects gained approval through Parliament Resolution No. 48 in 2010.
- Self-sustained economic capacity shall be built, and a multi-pillared economic structure competitive in certain areas on the world market shall be put in place.
- “A transparent and responsible mining and mineral resource industry shall be developed while derived revenues shall be redirected to ensuring short-term and medium-term sustainable economic development, establishing a multi-pillared economic structure, supporting human development
- “Protect the domestic labor market while undertaking a consistent strategy on eradication of poverty by creating secure jobs.”
- Clause 3.2.3.3 of the concept outlines: “Maintaining national foreign exchange and gold reserves at a level not less than the annual import requirement. Undertake long-run measures to increase foreign reserves and improve their management.”

# Oyutolgoi

- This process began in 2004 during the exploration and investment phases in Khanbogd sum, Umnugovi province.
- As the mine construction commenced in 2009, local people received information through the press and media, fostering high expectations about the project.
- Simultaneously, initiating the Investment Agreement marked the inception of the subsequent phase of collaboration within Mongolia's mining sector.
- Between 2010 and 2012, during the peak of open-pit development, talks regarding investments, programs, and projects targeting local development commenced.

# Further

- Nevertheless 2014, the tripartite council was formed, followed by signing a cooperation agreement in 2015. This marked the establishment of the "Gobi Oyu" development support fund, signifying a fresh commencement of collaborative efforts. Implementing the "Complaint Resolution Agreement" in 2017 provided a pathway to direct mining benefits toward sustainable development and ensure lasting local sustainability.
- For a considerable period, pursuing sustainable development through transparent management of mineral resources within economic diplomacy has been ongoing.
- This involves elements such as democracy, good governance, considerations of business and human rights, and the formulation of trade policies, all integrated within the framework of the megaproject.
- Throughout this period, the emphasis has shifted from addressing individual issues via diplomatic means to a concentrated effort on prioritizing challenges
- [1] <https://mneguidelines.oecd.org/Responsible-business-conduct-and-economic-diplomacy-tools.pdf>

# Ongoing process

- mining industry is a fundamental development concern, particularly as it operates within geopolitically intricate, contested, and vulnerable regions worldwide. Its value chain spans globally, interconnecting various sectors and systems.
- Consequently, the mining and metals sector heightens its awareness of geopolitical and international security risks and disseminates substantial expertise and knowledge.
- Oyu Tolgoi is a tangible example, showcasing the innovative development of the vertical value chain within the mining industry. This mega project has positioned Mongolia as a supplier and exporter of copper concentrate, significantly expanding the country's general budget revenue. Additionally, it has attracted substantial foreign direct investment, fostered technical and technological innovations, facilitated the incorporation of innovative practices, emphasized business and human rights considerations, and contributed to the generation of new employment opportunities.

- Globalization is reshaping the power dynamics, particularly between Western nations and others, notably in Asia and the Pacific. Governments worldwide are actively seeking new strategies to realign the interests of various nations, exploring fresh energy dynamics to achieve this balance.
- Moreover, mounting global challenges such as climate change and the depletion of vital resources like water, energy, and minerals have imposed increasingly complex challenges on governments across the globe
- Economic diplomacy lies at the core of addressing these challenges. While not entirely novel, it signifies a fresh phase in the evolution of market development in the 21st century.
- Oyu Tolgoi embodies this evolution by embracing cutting-edge communication technologies and driving transformations within the mining industry. Moreover, it aids in preparing the new generation of Mongolia to navigate a spectrum of opportunities and challenges by fostering advancements in various spheres.

# Key impacts

- The signing of an investment agreement between the government and the investor marked the inception of era of mineral extraction megaprojects
- Effect 2. Implementing the Oyu Tolgoi mega project has led to a continuous rise in the count of suppliers within the mining value chain, fostering the advancement of other enterprises and elevating the standards of goods and services.
- Effect 3. In 2021, 95 percent of Oyu Tolgoi's staff were Mongolian employees, 98 percent were in operations, and 89 percent were in underground mining projects. By December 2022, the percentage of Mongolian employees at Oyu Tolgoi had increased to 97 percent of the total workforce, 97 percent in operations, and 95 percent in underground mining projects, marking a 2-percentage-point overall increase.
- Effect 4. Over four years, Oyu Tolgoi's exports accounted for an average of 15.4 percent of Mongolia's total exports. Additionally, a one percent change in Oyu Tolgoi's exports correlated with an average 0.47 percent change in Mongolia's overall export figures
- Conclusion: The Oyu Tolgoi megaproject in Mongolia predominantly embodies a cooperative approach rather than a competitive stance, characterizing the essence of economic and diplomatic activities.
- It involves the economic development features which, if wisely used, can be very beneficial for Mongolia's development similar to investment in rapidly developing foreign countries