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RESEARCH ON REGIONAL ECONOMIC COOPERATION BETWEEN CHINA AND MONGOLIA

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ABSTRACT

Regional economic integration has become inevitable to promote the further development of regional economy in China and Mongolia. Since China's reform and opening up and Mongolia's democratic revolution, China Mongolia regional economic cooperation has been developing continuously. This paper summarizes the trend of economic cooperation between China and Mongolia through the analysis of economic and trade cooperation between China and Mongolia and the influencing factors of regional economy.

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1. Theoretical mechanism.

1.1. Concept of regional economic cooperation.

Regional economics is one of the most rapidly developing new applied economics disciplines in the field of economics. Regional economics is a branch of economics which includes spatial dimension into market analysis. Through logical program, laws and models include space to achieve prices, demand, production capacity, output and development levels, growth rates and income distribution under unequal regional resource endowments. In addition, when the local growth model regards space as an economic resource and an independent factor of production, regional economics becomes the main focus of analysis from space to territory, which provides both static and dynamic advantages. For example, it is critical to determine the competitiveness of local production systems.

The theory of regional growth was first developed in the middle of last century. Geographic space is divided into areas, namely the limited natural geographical area (mainly matched administrative units), within the area are unified, thus can be synthesized with social, economic, demographic nature of the overall characteristics of the carrier: international trade terms, but different from country, is characterized by movement of factors of production has obvious external openness. Table 1 summarizes the two main 'mega-trends' that, in our view, largely characterize the theoretical developments over the last two decades in regional economics, and that are common to urban economics and to many other disciplines: the need for more realism, and the move towards dynamic rather than static approaches. These theoretical perspectives are presented in Table 1 for both regional growth and regional development theories, the former aiming at explaining the aggregate growth rate of income and employment in a formalized and quantitative way, the latter oriented towards the identification of all tangible and intangible qualitative elements of the growth process of regions.

Table1.1. Major trends in regional economic theory

Theories Tendencies in theories	Regional growth theories	Regional development theories
More realism in theoretical approaches	Endogenous growth determinants	Reasons for success and failure of clusters of SMEs, local districts, milieux.
	A role in growth models for the complex non-linear and interactive behaviour and processes that take place in space	Non-material resources as sources of regional competitiveness
	Imperfect market conditions in growth models	An active role in knowledge creation
	Growth as a long-term competitiveness issue	
	Technological progress as an endogenous factor of growth	
Dynamic rather than static approaches	Evolutionary trajectories of non-linear interdependencies of complex systems	Dynamic rather than static agglomeration economies

Sources: Roberta Capello, Regional growth and development theories revisited, Department of Management, Economics and Industrial Engineering, Politecnico di Milano, Italy, 2008 year

The first tendency which has accompanied the theoretical development in the field is the need for more realism in sometimes rather abstract conceptual approaches, by relaxing most of the glaringly unrealistic assumptions of the basic theoretical models. This tendency is justified by the need to broaden the interpretative capacity of the theoretical toolbox in this research field by searching for theories that are better able to reflect issues and policy strategies for the real world.

1.2. Regional Division Theory.

Regional division of labor theory is divided into classical division of labor theory and modern division of labor theory. Classical division of labor theory is represented by Smith and Ricardo, etc. It mainly explains the division of labor theory from the perspective of advantages and factors, but it requires many assumptions. Modern division of labor theory is represented by product life cycle theory, diamond theory, and endogenous comparative advantage theory. Modern theories of division of labor have continuously revised predecessor assumptions and theories, adding more influential factors. Modern theory of division of labor studies inter-industry trade and intra-industry trade, which is manifested in horizontal and vertical division of labor, but is not mature.

1.2.1. Absolute Advantage Theory.

The economist Adam Smith (1776) put forward the theory of absolute advantage, thinking that has basis of international trade lies in the absolute difference of labor productivity between countries. His theory based on the every country has absolutely favorable conditions for the production of certain specific products, and that it is in the interest of all exchange countries to specialize in the production and exchange with each other. The theory of absolute advantage also applies to the division of labor between the domestic regions, because he believes that domestic trade is free, and under the premise of free trade, regional division of labor can be realized naturally.

1.2.2. Comparative Advantage Theory.

Based on the theory of absolute advantage, David Ricardo (1817) proposed the theory of comparative advantage. Compared with absolute advantage theory, comparative advantage theory is more universal. According to the theory of comparative advantage, the basis for regional division of labor and interregional trade is not limited to absolute differences in production technology. As long as there is a relative difference in production technology between regions, there will be a relative difference in production costs and product prices. Different products have comparative advantages in production, making regional division of labor and inter-regional trade possible, and thus obtaining comparative benefits.

1.2.3. Product Life Cycle Theory.

Product life cycle theory was proposed by Raymond Vernon in 1966. Product life cycle is the market life of a product, that is, the whole process of a new product from entering the market to being eliminated by the market. In his theory, product life refers to the marketing life in the market, which has to go through the stages of formation, growth, maturity, and decline. However, the time and process of this cycle in countries with different technical levels are different. There is a large gap and time difference during this period. It is this time difference, which is expressed as the gap in technology between different countries, which reflects difference in the competitive position of the same product in different national markets determines the changes in international trade and international investment. Vernon divided the countries into innovative countries, general developed countries, and developing countries according to such differences.

1.2.4. Diamond Theory.

The diamond theory of the American economist Michael Porter was put forward in 1990 to analyze why a certain industry in a country is more competitive internationally. Porter's theory, there are four factors that determine a country's industrial competitiveness: production factors (including human resources, natural resources, knowledge resources, capital resources, infrastructure); demand conditions (mainly the demand of the domestic market); Performance of related industries and supporting industries; corporate strategy, structure, performance of competitors. Porter believes that these four elements have a two-way effect to form a diamond system. In addition to the four elements, there are two variables—government and opportunity. Opportunity cannot be controlled, and the influence of government decisions cannot be ignored.

1.3. Regional Economic Integration.

Regional economic integration has become an important means for countries around the world to maintain their own economic and trade interests. Regional economic integration is proposed relative to economic globalization. Conceptually, it refers to two or more countries or regions that are relatively close in geographical area. In order to maintain common economic and political interests, the government comes forward Within a specific integration framework, a regional economic organization formed by coordinating the conclusion of a treaty or agreement, implementing unified policies or measures, and benefiting each other in order to achieve economic union. Regional integration can bring considerable economic benefits. Regional integration enables countries to improve market efficiency, share the cost of public goods or large-scale infrastructure projects, cooperate to decide policies, and have a foundation for global integration based on reforms and obtain other non-economic benefits such as peace and security. However, the risks of regional integration need to be identified and managed. Countries may have different preferences in the priority of regional integration, depending on their connectivity gaps, economic geographic environment or preferences of specific regional sovereignty. The impact of regional integration on trade and investment flows, economic activity distribution, growth, and income distribution is often difficult to assess. Lack of appropriate supplementary policies and systems may lead to invalid results. For example, policy barriers at the border may offset the benefits of transportation infrastructure cooperation. Regional integration has created winners and losers, especially within countries. Policies and institutions are needed to ensure that regionalism is inclusive and manages society, environment, and governance risks.

1.4. Regional Economic Integration and Mongolia.

Since middle of the last century, regional economic alliances have begun to emerge, and today there are more than 60. Regionalism and regional integration are rapidly becoming key determinants of political and economic realities today and in the future. For Mongolia, integrating economy, trade and investment into a larger regional cooperation structure may be the only way to accelerate its economic growth and reduce poverty on a long-term and sustainable basis. Mongolia caused the first wave of globalization. In the 13-14th century, most known worlds were under the protection of Mongolian rulers, with a single currency, open borders, and free exchange of goods across Eurasia and people. The degree of openness, religious tolerance and cultural diversity at that time were unprecedented, and they can still serve as a shining example for present and future generations. Today, Mongolia is the country with the most free trade and currency exchange system and has faithfully fulfilled its international obligations and obligations. Foreign policy focuses on creating the best external environment for its domestic growth and prosperity. It poses a threat to no one, and no one threatens our borders or independent survival, because Mongolia has good neighborly relations with its huge neighbors Russia and China.

Mongolia used to be a communist country that emphasized Marxism-Leninism, but since the transition to multiparty democracy and market economy in 1991, Mongolia has undoubtedly achieved socioeconomic development. Mongolia, like other communist countries at the time, experienced a sharp economic contraction after the collapse of the Soviet Union. However, the GDP of Mongolia increased from 2.6 billion USD in 1990 to 13.67 billion USD in 2018, and the per capita GDP increased from 1172 USD to 4,121 USD in 2018. At the same time, the average life expectancy increased from 60.3 years old in 1990 to 69.5 years old by 2018. In addition, Mongolia is rich in mineral resources and is one of the world largest exporters of copper, gold and coking coal deposits. These achievements are only one aspect of Mongolian development story. After the disintegration of the Russia Mongolia economic and trade dependence were transferred from Russia to China, only between its two neighboring countries. Mongolia has become a country that depends on exporting minerals to China.

Since the early 1990s, the relationship between foreign trade and diversification has been a priority for Mongolia. So far, Mongolia has remained relatively isolated from the international community. Although Mongolia is a member of the World Trade Organization, it did not participate in the regional free trade initiative and signed a bilateral free trade agreement. Landlocked countries face more difficulties than countries that have direct access to seaports, such as higher transportation costs, heavy customs procedures, and lack of proper infrastructure connectivity, which are essential for integration into regional production networks promoted higher economic development.

2. China Mongolia Regional Economic Cooperation.

Since the establishment of diplomatic relations between China and Mongolia, the cooperation between the two countries has experienced many twists and turns. At the beginning of the establishment of diplomatic relations, Chinese Premier Zhou En Lai and Mongolian Prime Minister Yu. Tsedenbal started China Mongolian friendship after their first mutual visits. In 1956, China and Mongolia established a true cooperative relationship. Since then, China Mongolia economic and trade cooperation has been constantly advancing through twists and turns. Since the 1980s, the bilateral relations have gradually recovered, and economic and trade cooperation has also deepened. Especially since the 21st century, the cooperation between China and Mongolia has been fully launched, which has become a bright spot in the development of relations between Mongolia and neighboring countries. In the 70 years of cooperative development, good neighborly and friendly relations have always been the mainstream, but the development of China Mongolia regional economic cooperation has been relatively slow and the level of cooperation is low. China Mongolian relations have undergone three important upgrades in the early 21st century. In 2014, they were upgraded to a comprehensive strategic partnership. The relationship between the two countries entered the best period in history.

At that time, bilateral relations were on the rise, and the legal basis for the relationship between the two countries was signed, such as “Trade Cooperation Contract” in 1951, “Bilateral Trade, Economic and Cultural Cooperation Agreement” and “About Bilateral Trade Payment and Settlement protocol” in 1952, “Agreement on China workers to participate in the construction of the Mongolia” in 1955, “Friendship and Mutual Assistance Contract” in 1960, “Trade Negotiations” in 1961, “Transit Agreement”, “China Mongolia Border Railway Agreement”, “Radio Mail Parcel Exchange Agreement”, “Air Freight Agreement” , “China assistance to Mongolia agreement” in 1962 etc. In addition, on the basis of the agreement on economic, trade and cultural cooperation between China and Mongolia, the two governments established the agreement on supply and payment of products in 1953, which was the first agreement between China and Mongolia. Since then, official visits between China and Mongolia have expanded, and bilateral relations have grown steadily, developing in the context of economy, foreign trade, culture and education.

Through the development of China Mongolian friendly relations, the trade volume between the two countries reached 24.6 million rubles (1 million rubles equivalent to 2 million USD) in 1961, nearly 67 times the total trade in 1951 (1 million rubles equivalent to 1.5 million USD) and achieved unprecedented good results. When the trade volume between China and Mongolia was converted into USD, it increased from 750,000 USD to 49.94 million USD, of which China exports were 41 billion USD. In terms of trade structure, primary products and consumer goods are the main products. The products imported from China are mainly food, silk and fabric, tobacco, construction materials, trucks, industrial equipment and pharmaceuticals. The products exported to China are mainly for livestock products, cashmere products, animal and plant medicines and wood.

Table 2.1. China Mongolia trade volume from 1952 to 1961. Unit: (million Russian ruble)

Year	1952	1953	1954	1956	1957	1959	1961
Total trade	0.5	1.7	3.6	9.5	20.5	22.9	24.6

Sources: L. Begzjav, *Mongolia China Relations 1949-1999*, Ulaanbaatar, 1999: 36

In 1952, delegations from China, Mongolia and Russia signed the railway contract in Moscow. In 1956, the railway linking Moscow, Ulaanbaatar and Beijing was established, which was very important for expanding cooperation between China, Mongolia, Russia and the communist countries of eastern Europe. At that time, the Russia and Mongolia exported to China by railway, and Mongolia received transit payments. Through the trade negotiations between China and Mongolia, China paid 3 million, 6 million, 11 million, 17 million and 18.8 million rubles for railway transportation to Mongolia in 1956, 1957, 1958, 1959 and 1960. The scale of trade between the two countries increased, in 1959, China accounted for more than 15% of Mongolian foreign trade.

After the world second war, national liberation movements took place in Asian and European countries, democratic countries emerged and socialist system was established. At that time, the trend of world development was determined by the Russia. China Mongolian relations deteriorated through Russia China relations, which stopped Chinese investment and aid. In addition, the Russia was able to fill China's gap in Mongolia and strengthen its position. From 1966 to 1971, Mongolia continued to make efforts to normalize its relations with China. In the future, Mongolia will seek friendly cooperation and good-neighborly relations with China. Since the 1960s, the deterioration of China Russia relations had a profound impact on China Mongolian relations, and economic and trade relations have declined sharply. In 1962, China provided Mongolia with us 26.85 million USD, but in 1963, it dropped to us 7.9 million USD, and in 1967, the trade volume between the two countries dropped to 350000 USD. Since 1969, the between China and Mongolia trade volume has gradually increased. From 1973 to 1975, it fluctuated by 4-5 million us USD, and from 1982, it exceeded 4.5 million USD.

With the improvement of China Russia relations, China Mongolian relations have improved, and great progress has been made since 1982. From 1982 to 1983, cooperation in the railway and trade fields was resumed. In September 1984, the Chinese and Mongolian delegations exchanged views on improving bilateral relations at the 39th UN General Conference in New York. This was the first meeting in more than 20 years. Since 1985, the Russia began to reduce assistance and cooperation to the Mongolian economy, which has brought a heavy blow to the economic situation of Mongolia. But opportunities have emerged to increase cooperation with China to a higher level. The performance of this situation is that in 1986, the mutual border inspection and border trade settlement agreements were reestablished under the 1964 border protocol. The visit of the Chinese and Mongolian Foreign Ministers in 1989 was important for the restoration of bilateral relations. In order to further expand the level of cooperation, the two sides signed the "Establishment of China Mongolian Economic and Technical Cooperation Agreement", which achieved a comprehensive and formal restoration of China Mongolian economic and trade cooperation. Since then, China Mongolia economic and trade cooperation has entered a new stage, and the total trade volume has gradually increased slowly, as shown in Table 2.2.

Table 2.2. 1980-1990 China Mongolia trade volume table. (Unit: Million USD)

Year	1980	1984	1985	1986	1987	1988	1989	1990
Trade volume	11.64	19.6	26.0	24.9	26.7	21.79	17.97	41.02
Annual growth rate	-	1.68	1.32	-4.2	7.2	-18.3	-17.5	28.3

Source: L. Begzjav, *Mongolia China Relations 1949-1999*, Ulaanbaatar, 1999:48

In the early 1990s, Mongolian mission was to build a democratic society and human rights and freedoms, and major countries such as the United States and Japan were key factors in Mongolian foreign policy. The expansion of cooperation between the United States and Japan under the "Third Country" policy has led to changes in the volume of trade with China. During this period, the Economic, Trade and Technical Cooperation Committee was established, a reciprocal travel agreement was signed, and efforts were made to restore the Mongolian council in Hohhot. Therefore, it is very important to develop relations with Inner Mongolia, expand cross border trade, and establish trade and direct relations with the southern province of Mongolia and Inner Mongolia. Relations between the two countries have returned to normal and economic, trade cooperation has begun to expand.

Since the end of 1990, the trend of economic globalization and regional economic integration has been increasingly expanded, and the relations between countries have been deepened, resulting in a new world economy pattern of interdependence, mutual integration and high integration. Mongolia has established a democratic system, and its society has undergone profound changes. In June 1992, the eight ports of Zamyn Ude-Erlian, Takeshkan-Bulgan, Havirga-Arkhashaat, Bichigt-Zuunkhataavch, Master Temple-Burgastai, Beitag-Uilastai, Hong Shan Zui-Dayan, Gashuun suhait-Gantsmod opened the door for the people of the two countries to travel, trade and expand friendly relations in the border area. Chinese President Jiang Ze Min, President Hu Jin Tao, Premier Wen Jia Bao, Chairman of the Standing Committee of the National People’s Congress Wu Bang and others visited Mongolia in 1999, 2003, 2010, and 2013 respectively. At the same time, the chairman of Mongolian National Khural R. Gonchigdorj, Prime Minister N. Enkhbayar, Prime Minister, G. Enkhbold, President N. Bagabandi, and the President Ts. Elbegdorj, Prime Minister S. Batbold and others visited China in 2000, 2002, 2004, 2005, 2006, 2010 and 2011 respectively. Through these visits, the two countries reached consensus on deepening mutually beneficial economic and trade cooperation, and negotiated and established a cooperation strategy in the field of resource development and infrastructure construction; further cooperation in various fields including infrastructure, customs cooperation, energy development, cultural exchanges, and education with a consensus, good-neighborliness, mutual trust and partnership have taken a step forward. During the period of cooperation and development between the two countries, they signed the “Joint Declaration of the People’s Republic of China and Mongolia on the Establishment and Development of a Comprehensive Strategic Partnership” and reached consensus on a series of issues such as major project cooperation and development cooperation in the field of minerals, thus achieving a China Mongolia strategy partnership has been upgraded to a comprehensive strategic partnership. The establishment of a comprehensive strategic partnership has pointed out the direction and laid the foundation for China Mongolia economic and trade cooperation.

With the rapid development of China economy and the acceleration of the geo-economic cooperation with neighboring countries, high level visits have continued, and the results have been remarkable, entering the best development period in the history. Since 1989, China and Mongolia trade volume has increased, from 33.6 million USD in 1990 to 285.9 million USD in 1999, exports from 11.3 million USD to 208.2 million USD, imports from 22.3 million USD to 77.6 million USD. In other words, between 1990-1999 years, China Mongolia trade volume increased by 8.5 times, and imports and exports increased by 3.5 times and 18.4 times. The share of China Mongolia trade in Mongolian foreign trade has increased, and in 1999 it was 32.8%. With the continuous improvement of China opening to the outside world, investment in Mongolia has continued to rise, especially since 1998, direct investment in Mongolia has entered a new stage.

Table 2.3. China Mongolia trade volume in 1990-1999. (Unit: Million USD)

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Mongolia's total foreign trade	1584.7	708.9	806.7	761.6	625.9	888.6	875.2	919.8	848.4	871.1
China Mongolia trade volume	33.6	69.1	127.0	186.1	97.1	122.3	147.0	164.9	176.7	285.9
Mongolian exports to China	11.3	52.8	69.4	120.2	73.2	77.8	81.0	101.6	110.1	208.2
China's imports to Mongolia	22.3	16.3	57.6	65.9	23.9	44.5	66.0	63.3	66.6	77.6
Position in the Mongolia's foreign trade	5	2	2	2	2	2	2	2	2	1

Source: Data compiled by the Mongolian National Statistical Office’s Bureau from 1990 to 1999

At the beginning of the 21st century, the share of China Mongolia trade in Mongolian foreign trade increased sharply. From 2000 to 2008, Mongolia’s exports to China increased. However, data show that the total trade volume between China and Mongolia reached USD 6.46 billion and USD 5.93 billion from 2011 to 2012, a decrease of 8.2%. The trade situation between China and Mongolia during this period is shown in Figure 2.1.

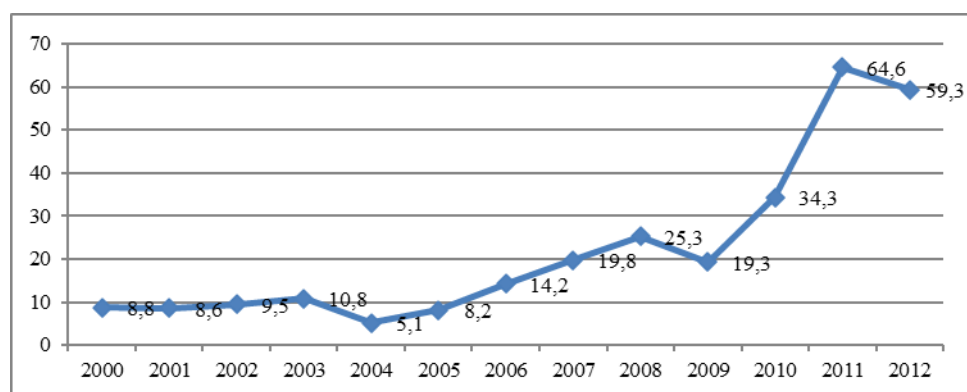


Fig. 2.1. 2000-2012 China Mongolia trade volume growth (100 million USD)

Source: Data collected by the Mongolian National Statistical Office's Bureau 2000-2012.

As can be seen from Figure 2.1, from 2000 to 2012, the growth of China Mongolia trade volume has declined due to the impact of the world financial crisis in 2009, but Mongolian economic situation has improved through mining industry development and investment environment since 2010 after the reforms were resumed, China Mongolian trade has resumed since 2011.

Since Mongolian transition from a centrally planned economy to a market economy in 1993, the “Foreign Investment Law” was revised in 2008, laying the foundation for attracting foreign investors. According to the Ministry of Foreign Investment, direct investment in Mongolia from 1980 to 2004 was 1.2 billion USD, from 2005 to 2009 it was 2.7 billion USD, and in 2009 alone it reached 800 million USD. This shows how fast investment flowing into Mongolia is growing. In addition, since 1990, mining alone has accounted for more than 60% of total foreign direct investment. Due to large scale mining projects, the inflow of foreign direct investment is expected to increase in the future. With the deepening of China Mongolia economic cooperation, the investment fields of the two countries have expanded year by year, and the total investment has also slowly increased. Since 1998, China has been the largest investor in Mongolia. In recent years, enterprises in 79 countries and regions such as China, Russia, Japan, United States, and Luxemburg have made direct investments in Mongolia, and investment projects have continued to expand.

Table 2.4. Statistics of China's direct investment in Mongolia. (Unit: Million USD)

Year	Total investment	China's investment in Mongolia	Growth rate	Total investment projects	China's investment projects in Mongolia	Growth rate	Number of registered companies
1998	45.9	22.5	49.1	276	108	39.1	98
2000	90.3	32.9	36.4	291	115	39.5	118
2001	125.5	47.3	37.9	350	131	37.4	132
2002	172.5	135.3	78.4	390	161	41.3	161
2003	205.3	46.9	22.8	635	323	50.9	343
2004	237.1	112.6	47.5	805	438	54.4	349
2005	311.7	235.8	75.6	988	568	57.5	532
2006	280.3	227.9	81.3	1021	671	65.7	827
2007	215.6	172.0	79.8	1079	702	65.1	876
2008	431.5	339.6	78.7	1181	829	70.2	859
2009	604.9	497.8	82.3	1205	901	74.8	299
2010	630.4	521.3	82.7	1326	922	69.5	376

Source: Data collected by the Mongolian Foreign Investment Bureau from 1998 to 2010

From Table 2.4, China’s investment in Mongolia has been increasing slowly. According to Mongolia’s foreign trade statistics, the growth rate of investment from 2000 to 2010 has been slow. This is the share of foreign investment in Mongolian total investment. The proportion of the total is increasing; at the same time, the number of investment projects increased from 108 in 1998 to 922 in

2010, this proportion rose from 39.1% to 69.5%, which has a positive impact on improving local employment conditions and promoting local wage growth.

With the development of China Mongolia politics and economic and trade relations, China Mongolia regional economic cooperation has developed steadily and entered a new historical period. During President Xi Jin Ping visit to Mongolia in August 2014, the two sides announced the establishment of an all-round strategic partnership in China and Mongolia, and set a goal of increasing trade to 10 billion USD by 2020. In November 2015, Mongolian President Ts. Elbegdorj visit to China. The two sides signed 11 cooperation documents and published the “Concerning the Deepening of the Comprehensive Strategic Partnership between Mongolia and the People’s Republic of China”. At the same time, China’s “Belt and Road” initiative and Mongolian “Steppe Silk Road” initiative have opened up many new opportunities for cooperation in various aspects. In 2016, Chinese Premier Li Ke Qiang visit to Mongolia during the Asia Europe Meeting and signed more than ten documents on trade, economy, technology, energy, infrastructure development, banking and financial cooperation, and a comprehensive strategic partnership take a step forward. Mongolia is an important part of the historic Silk Road. One of the countries along the “Belt and Road” is a mutually beneficial and continuously developing economy. In May 2017, Mongolian Prime Minister J.Erdenebat signed a “Memorandum of Understanding” when attending the “Belt and Road” International Cooperation summit in order to reach the possibility of reaching a free trade agreement between the two countries. The two sides exchanged views on raising the regional economic cooperation between the two countries to a new level. Through this multilateral visit, the Mongolia-China-Russia summit mechanism was established and the economic corridor between the two countries was established. This is an unprecedented opportunity to promote regional economic cooperation between China and Mongolia.

At the beginning of the new century, Mongolian economy recovered and China's share of foreign trade increased dramatically. Although the trade volume between the two countries declined due to the financial crisis in 2009, Mongolia has resumed its economy through reforms such as the improvement of the mining and investment environment since 2010, and trade between China and Mongolia has increased since 2011. Due to the decline in mineral prices in the world market, Mongolian foreign trade and China Mongolian trade declined in 2012 and 2013. Through actively promoting and docking the “Belt and Road” and “Steppe Silk Road” initiatives, China Mongolia trade volume has reached a new level. In 2018, Mongolian total trade with 159 countries and regions in the world was 12.9 billion USD, an increase of 22.3% over the previous year, of which, exports totaled 7 billion USD and imports totaled 5.9 billion USD, an increase of 13.1% and 35.4 %.

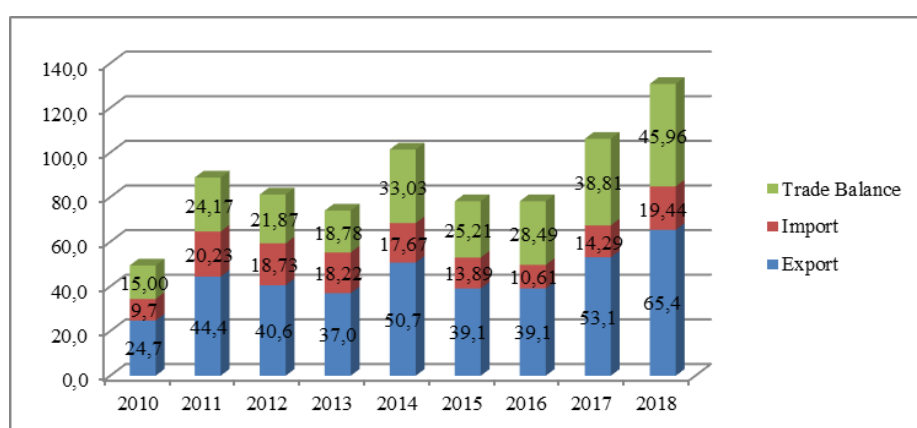


Fig. 2.2. 2010-2018 China-Mongolia total trade situation

Source: Data compiled by the Mongolian National Statistical Official Bureau 2010-2018

Since 2010, the share of China Mongolia trade in Mongolian foreign trade has increased by more than 50% on average. Due to the fluctuations in Mongolian foreign trade, the trade volume between China and Mongolia accounted for 47.8%, 52%, 62.1%, 64% and 65.77% of Mongolian foreign trade in 2012, 2013, 2014, 2017 and 2018, respectively. This shows that the combination of the “Belt and Road” initiative and the “Steppe silk road” has created conditions for the sustainable growth of bilateral trade. China mainly exports value-added products to Mongolia, such as gasoline, garments, textiles, industrial and mining machinery, equipment, household appliances, building materials and consumer goods.

Mongolia exports more than 20 products to China, such as herbal medicine, leather, wood, scrap metal, as well as coal and iron ore. As China economy grows, demand for energy resources such as wood, coal and oil are growing, and China domestic supply cannot meet demand. But Mongolia is rich in minerals and raw materials. As a result, China will be able to supply energy and minerals. Foreign direct investment flowing into Mongolia in the past decade has been volatile and unstable. From 2000 to 2010, due to the rapid growth of the mining industry, Mongolian foreign direct investment increased substantially. However, since 2012, due to the decline in international commodity prices and insufficient investor confidence, foreign direct investment inflows have declined sharply. The combination of FDI concentration has a major impact: First, China and Canada, which account for more than half of Mongolian FDI, have made Mongolia overly dependent on its economy and increased investment instability. Second, from an industry perspective, FDI is highly concentrated in a single unit, with mining and quarrying accounting for 71% of FDI inflows. In 2011, foreign investment rose sharply to USD 4.99 billion, and investment in Mongolia reached 110 million USD.

3. Analysis of Influencing Factors of China Mongolia Regional Economic Cooperation

3.1. Influence of the factors of the world economic crisis

Since 2008, the world economic crisis has affected Mongolian mineral, cashmere, petroleum and other commodities in the world market. In 2009, Mongolia signed the “Oyutolgoi Investment Agreement”, which brought about the development of mining, but made it clear that Mongolian economy depends on minerals and mining. This means that Mongolia is directly dependent on foreign markets, especially China. In financial crisis, demand will drop sharply, commodity prices will fall, investment will slow down, companies and factories will close, and unemployment will rise. When the crisis occurred, the price of Mongolian state owned oil rose to per barrel 140 USD, while the price of minerals fell sharply, and China’s GDP also fell in many areas. In addition, the foreign trade deficit, currency reserves fell by 2 times, loan balances increased by 20%, non-performing loans increased by 2.8%, the development of Bank of Mongolia and financial institutions fell into crisis due to the halt. For Mongolian GDP, the growth rate was -8.7% in 1991 and 2.1% in 1994, the first positive growth after the economic transformation. In 1995 it reached 6.4%, but in 2000 it fell to 1.1%, in 2009 it fell to 1.269%, and in 2011 it was 17.7%, which can be regarded as the peak growth rate in Mongolian economic history. Since then, economic growth has not been very high, but unstable.

Table 3.1. Mongolian GDP growth (Unit: %)

Year	Growth rate	Year	Growth rate	Year	Growth rate	Year	Growth rate
2000	1.1	2005	7.3	2010	6.4	2015	2.4
2001	3.0	2006	8.6	2011	17.3	2016	1.2
2002	4.7	2007	10.2	2012	12.3	2017	5.3
2003	7.0	2008	8.9	2013	11.6	2018	7.2
2004	10.6	2009	-1.269	2014	7.9	-	-

Source: www.data.worldbank.org

During the economic crisis, the inflation rate fell sharply in 2009, and the Central Bank of Mongolia lowered the official interest rate. As energy prices rise, the inflation rate rises slightly. At that time, the influence of the fiscal and monetary policies implemented by the Mongolian government caused the government income and expenditure to become more and more unbalanced, and its debts increased, resulting in a high inflation rate.

Table 3.2. Inflation rate table of Mongolia. (Unit: %)

Year	Growth rate	Year	Growth rate	Year	Growth rate	Year	Growth rate
2000	8.1	2005	9.5	2010	13.0	2015	1.9
2001	8.0	2006	6.2	2011	8.9	2016	1.3
2002	1.6	2007	17.8	2012	14.0	2017	6.4
2003	4.7	2008	22.1	2013	12.5	2018	8.1
2004	11.0	2009	4.2	2014	10.4	-	-

Source: www.data.worldbank.org

3.2. Influencing factors of the strategy of developed countries.

The international financial crisis that began in the United States in 2007 became a global financial crisis. Since then, the world political and economic system has changed. The economic development of Japan, United States, Europe countries and other developed countries has gradually declined. Weak economic and investment deficits, production and technology stagnation, high unemployment and high government debt have led to a slowdown in global economic growth and economic growth. The economic crisis has reached its lowest point and has stabilized. But Asia Asian countries are overcoming the crisis relatively steadily. Due to continued currency expansion and strong fiscal expansion, the Chinese economy grew by 7.9% in the first quarter of 2009. External economic shocks led to a decline in the current account balance, but in the second half of 2009, due to the development of the Chinese economy, Mongolia's balance of payments situation has improved.

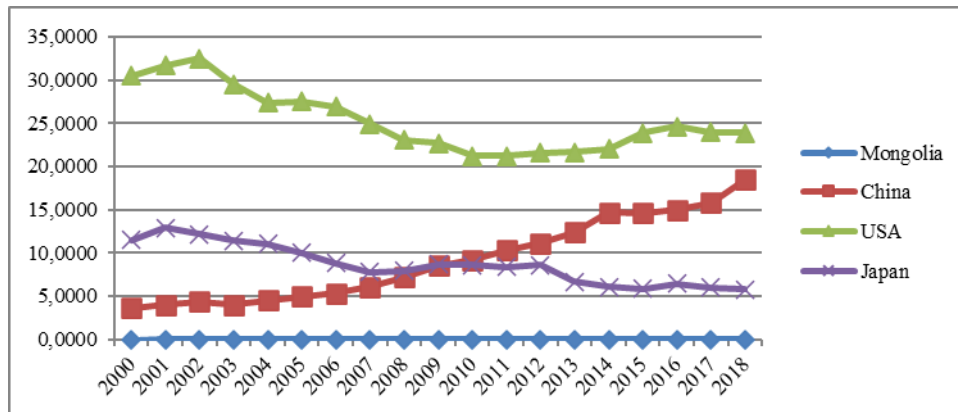


Fig. 3.1. Proportion of GDP of the United States, Japan, China and Mongolia in the total world GDP (%)
 Source: www.data.worldbank.org

During the world financial crisis, it brought about major changes in the world economic system. Practice has proved that developed economies, led by the United States and Japan, are severely impacted and affected by factors such as the lack of investment opportunities, the stagnation of the evolution of the industrial technology system, the high unemployment rate and high government debt. The leading role in economic growth has been shaken, and the rate of economic growth has continued to decline. However, due to the combination of their national conditions, developing economies actively promote reform and opening up measures, strengthen the guiding role of the government, encourage industrial technological innovation, and continuously deepen the correct selection and implementation of development strategies such as regional economic cooperation with neighboring countries, making these economies It has always maintained a relatively high growth rate, continuously optimized its industrial structure, gradually improved its industrial technology system, greatly contributed to the growth of the world economy, and has become an important engine for the rapid growth of the world economy.

3.3. Influencing factors of poor regional economic integration conditions.

The economics of China and Mongolia have developed rapidly, but the conditions for regional economic integration between the two countries are still very poor. Regional economic development in the border regions and border cities of the two countries is relatively slow. At present, the total population of Mongolia is insufficient, and the living standard and population growth rate are relatively slow. In addition, most private industries and populations are gradually shifting from inner cities to the capital Ulaanbaatar, making the border area a "hollowing out" of population and industries. Therefore, there is a small population in the border area between Mongolia and China, and most of the current population is not residents, but passes through the border. In terms of infrastructure, the facilities in the border area of Mongolia are not perfect, the conditions for attracting domestic and foreign investment at the ports are inadequate, the transportation infrastructure and logistics infrastructure construction funds are insufficient, and the maintenance and protection capabilities are weak.

3.4. Influence of cultural factors.

Although economic development is important in any region, it is important not to forget culture. If the traditional culture cannot be developed, the country's economy cannot be further developed. The real foundation of development is the use of manpower and material resources.

Therefore, the purpose of development must be found in the culture. Although China and Mongolia have different cultures, and cultural customs are difficult to change. Russian culture and tradition play an important role in Mongolian cultural education. After Mongolia declared independence, it established diplomatic relations with the Russia, so most of us in the age of parents had Russian culture and education. In addition, Mongolia uses scripts from Russia, which means that some of Mongolian traditions have changed. Since the beginning of the 21st century, the strategies of countries such as China, South Korea, Japan, the United States and European countries have a certain impact on the cultural heritage of Mongolia. Therefore, the influence of Chinese culture is showing a declining trend. Similarly, it can be gradually introduced into Mongolia from the potential of Chinese cultural development. I think that some cultures have become localized in Mongolia.

3.5. Influence of lack of the human resource.

The main reason for Mongolian slowdown in development not only in the economy but also is under population and uneven population distribution. Mongolian population reached 3.23 million (as of 2018), about 50% of the population is working age, but the unemployment rate is relatively high. Animal husbandry is an important part of Mongolian industrial structure, and most of the population living in rural areas engaged in animal husbandry. Study abroad and work conditions are very common. The most important issue is to rapidly increase the population in a relatively short period of time, rather than being able to train businessmen with economic talent, talent and social responsiveness. Therefore, the government needs to expand the coverage of population growth policies. Within the framework of the Mongolian government's population growth policy, the more births, the more subsidies are provided, and each child is given money every month. On the contrary, China has a large population, a large market, advanced technology, and a world leading level of industrialization.

Table 3.3. Employment Structure and Unemployment Rate of Mongolian Population from 2000 to 2018 (Unit: Thousand person, %)

Year	Employed population	Proportion of agricultural employees	Proportion of industrial employees	Proportion of service industry employees	Unemployment rate
2000	808.99	48.64	14.14	37.22	6.07
2001	832.3	48.35	13.66	37.99	5.97
2002	870.8	44.94	14.32	40.74	6.20
2003	926.5	46.69	11.92	41.38	6.80
2004	950.5	40.16	16.14	43.70	7.28
2005	968.3	39.88	16.81	43.30	7.60
2006	1009.9	28.76	17.34	43.89	7.03
2007	1024.0	41.58	13.68	44.74	7.20
2008	1041.7	40.59	15.22	44.18	5.57
2009	1006.3	40.01	14.94	45.05	5.86
2010	1033.7	33.53	16.24	50.24	6.55
2011	1037.7	33.03	17.34	49.63	4.77
2012	1056.4	35.02	18.17	46.81	3.91
2013	1103.6	29.81	20.42	49.76	4.23
2014	1110.7	27.97	20.72	51.30	4.80
2015	1151.2	28.45	20.29	51.26	4.86
2016	1147.8	30.36	18.99	50.65	7.23
2017	1238.3	28.72	19.22	51.99	6.36
2018	1253.0	28.61	19.08	52.20	6.32

Source: www.data.worldbank.org

As can be seen from Table 3.3, most people in Mongolia are employed in the service industry, while Mongolian industrialization level is low, and the annual unemployment rate is more than 4.0%.

3.6. Influence of urbanization factors.

Urbanization affects regional development and regional economic cooperation. Urbanization is likely to represent the population of a country or region. In 1996, the urban population's share of the Mongolian population was 52%, increased to 57.13% in 2000, and increased to 67.8 in 2018. About 48% of the population lives in Ulaanbaatar, only 3% of the country's territory, and it is expected to grow to 54.7% by 2030. Large companies are concentrated in cities. Factors that affect population entry into cities include government, social and service centers and support for active economic activities, social welfare services, good infrastructure development, high-quality job opportunities, and rapid health care.

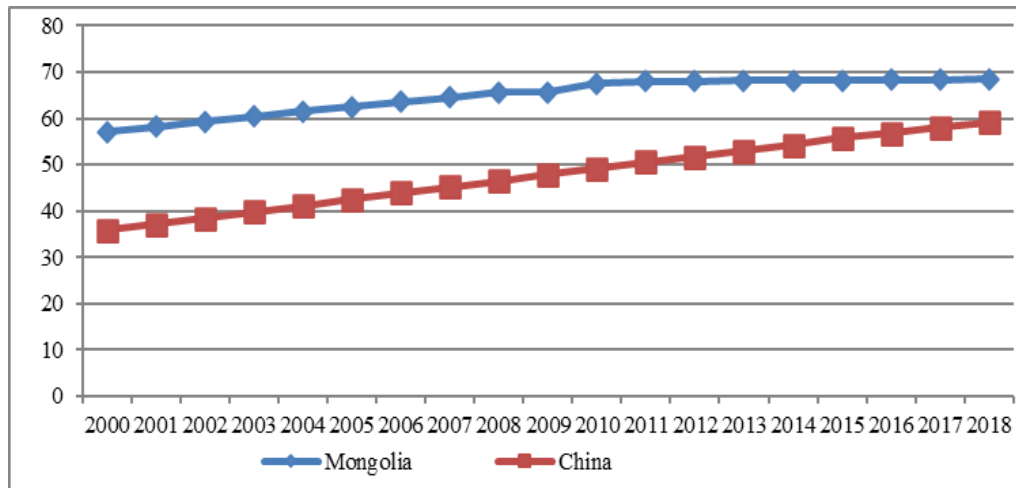


Fig. 3.2. Situation map of urbanization rate in China and Mongolia (%)
 Source: www.data.worldbank.org

Mongolia is increasingly emigrating, but the government has been implementing policies for rural areas, including west, east, gobi, central and khangai regional centers. In recent, Increasing population of Ulaanbaatar, Darkhan and Orkhon city. China urbanization is characterized by a high concentration of economic activities in cities that are closely related to the international market and rapid growth. Most of the population is concentrated in Beijing and Shanghai.

3.7. Influence of economic factors.

In last 40 years of China reform and opening up, the economy has kept the economic rate at 9.5%, and the economy is not short of crisis. The Organization for Economic Cooperation and Development (OECD) pointed out that the Chinese economy is becoming balanced. Through the development of the “Belt and Road” initiative, provinces in western China are open to the door, and these provinces are likely to become new drivers of the Chinese economy. From 2000 to 2017, China has reached 35% of the world total output. At present, China has become the largest export market of 33 countries and the largest importer of 65 countries.

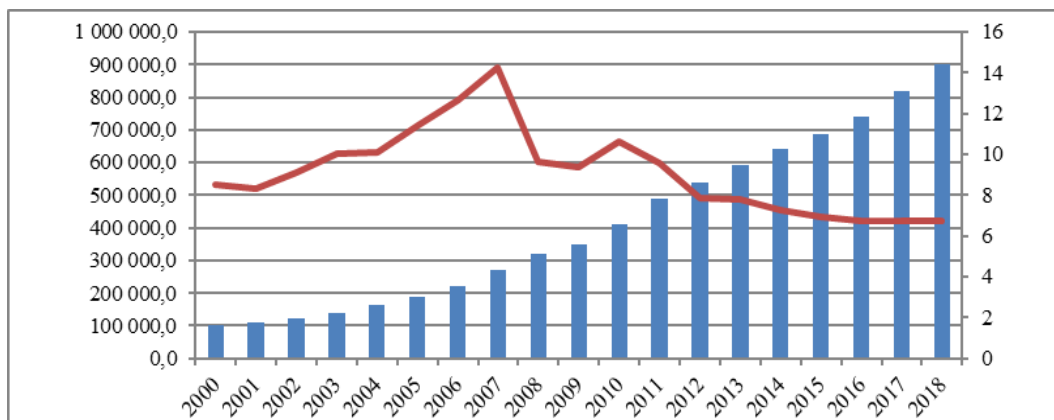
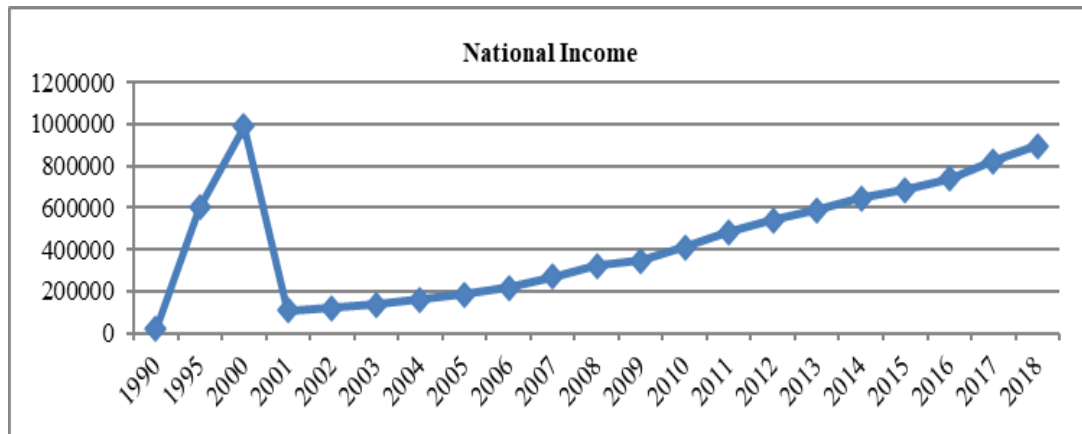


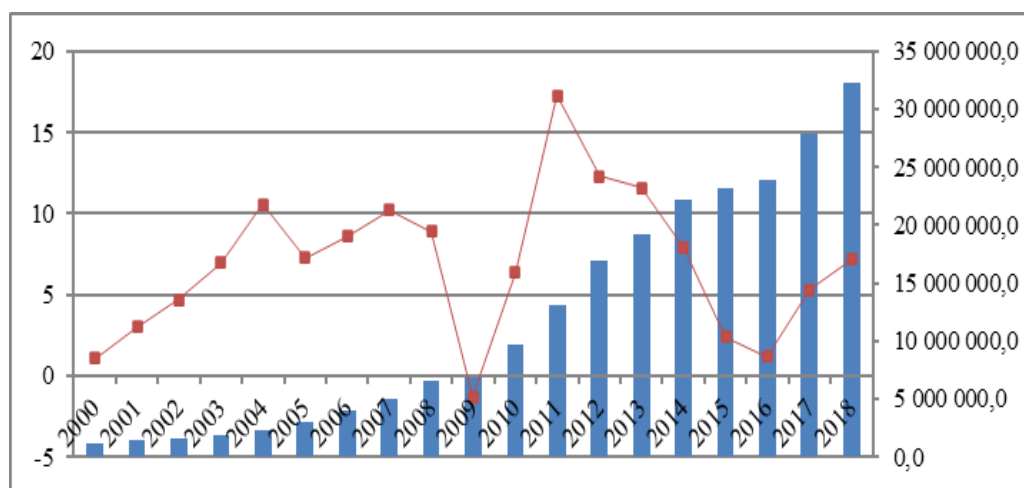
Fig. 3.3. China GDP and growth rate (million USD, %)
 Source of information: www.data.worldbank.com

In recent, China economic growth has slowed, but the growth rate has maintained leading position in the world. With the growth of major economic indicators, economic growth shows signs of moderate and high growth. National income has grown steadily. Income is the source of people's livelihood and consumption. In some years, China national income growth rate has exceeded GDP growth.



*Fig. 3.4. China per capita national income growth (million USD)
Source: www.data.worldbank.com*

Since the democratic revolution in 1990, Mongolia has transformed into a new political system, entered the stock market and gradually resumed its economic growth. In 1996, the level of economic growth reached 2.1%, which was the first positive growth after the transformation of the new political system. Economic growth is unstable, and in some years is below GDP growth. After the world economic crisis, China's manufacturing output will reverse, and there will be a trend to create favorable conditions for my country. However, at that time Mongolian trade deficit narrowed and imports contracted faster than exports. The main reason for the decline in exports is changes in prices. At present, large-scale foreign direct investment in the mining industry is expected to continue to grow, and the Mongolian economy is expected to grow by an average of 7-8% by 2020-2021.



*Fig. 3.5. Situation of Mongolia's GDP and GDP growth rate (million USD, %)
Source: Mongolian Statistical Yearbook (2000-2018)*

At that time, Mongolian economy was revived, but the income was low and the standard of living was low.

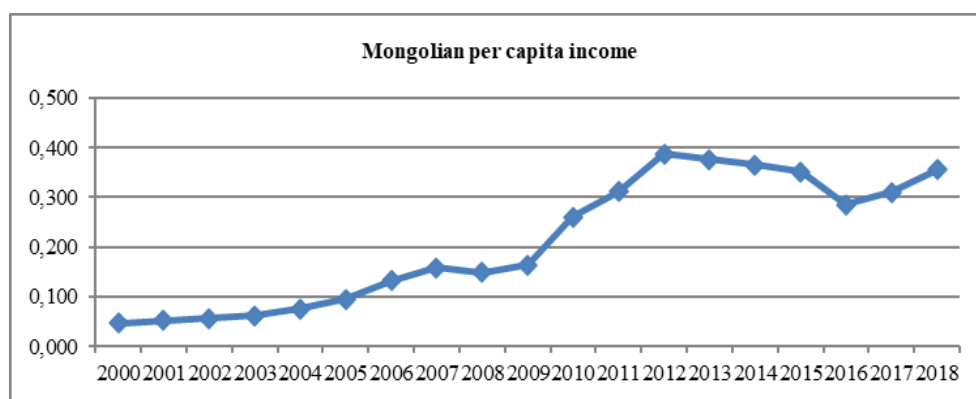


Fig. 3.6. Mongolian per capita income growth trend (USD)
 Source: Compiled by the Mongolian Statistical Yearbook (2000-2018)

3.8. Influence of structural complementarity factors.

The development of regional economic integration in East Asia and the development of China and Mongolia regional economy, the economic structure of China and Mongolia also been continuously improved. In terms of commodity trade structure, most of the imported commodities to Mongolia are mainly low value-added grain, oil, food, chemical products, textiles, sugar, machinery and transportation equipment, capital and technical products. The Mongolian exports to China mainly primary products, and more than 90% of mineral products are exported to China.

4. An empirical analysis of the influencing factors of China Mongolia regional economic cooperation.

4.1. Index system of influencing factors of China Mongolia regional economic cooperation

Table 4.1. Index system of influencing factors of China Mongolia regional economic cooperation

Dimension	Selection of indicators and measurement units
Bilateral trade	Take the total import and export trade of the two countries as the measurement indicator, expressed by T_{ij} , unit: million USD
Economic scale	Measure the economic scale in terms of GDP, expressed in G , unit: USD
The level of economic development	Measure the economic development level of the two countries in terms of GDP per capita, denoted by D , unit: USD / person
Openness	The ratio of direct investment to its GDP is used to comprehensively reflect the degree of openness to the outside world, denoted by K , unit: %
Population size	The population size is measured by the total population, denoted by P , unit: person
Urbanization level	The urbanization level is measured by the proportion of urban population to the total of people in the country, which is denoted by U , unit: %
Export trade	The export trade is measured by the total export trade of a country, expressed in E_{ij} , unit: million USD
Import trade	The import trade is measured by the total import trade of a country, expressed by I_{ij} , unit: million USD

4.2. Data source.

The data in this article is derived from the original data of the relevant statistical yearbooks such as “China Statistical Yearbook” and “Mongolia Statistical Yearbook” (2000-2018), World Bank database. Bilateral trade data, GDP of the two countries, GDP per capita, population of the two countries, and direct investment are obtained from the World Bank database (<http://data.worldbank.org>).

4.3. Pearson correlation analysis results.

According to the analysis, SPSS 25.0 statistical analysis software is used to perform correlation analysis on panel data of relevant factors, and the results are shown in Table 4.2.

Table 4.2. Correlation analysis results of influencing factors of China Mongolia regional economic cooperation

		<i>T_{ij}</i>	<i>G</i>	<i>D</i>	<i>K</i>	<i>P</i>	<i>U</i>	<i>I_{ij}</i>	<i>E_{ij}</i>
<i>T_{ij}</i>	Pearson Correlation	1	.414**	.297	.205	-.591**	.818**	.694**	.905**
	Sig. (2-tailed)		.010	.070	.217	.000	.000	.000	.000
	N	38	38	38	38	38	38	38	38
<i>G</i>	Pearson Correlation	.414**	1	.277	-.250	.812**	-.574**	.193	-.658**
	Sig. (2-tailed)	.010		.092	.130	.000	.000	.246	.000
	N	38	38	38	38	38	38	38	38
<i>D</i>	Pearson Correlation	.297	.277	1	.179	.354*	.156	.672**	-.007
	Sig. (2-tailed)	.070	.092		.281	.029	.350	.000	.968
	N	38	38	38	38	38	38	38	38
<i>K</i>	Pearson Correlation	.205	-.250	.179	1	-.083	.285	.202	.151
	Sig. (2-tailed)	.217	.130	.281		.619	.083	.225	.366
	N	38	38	38	38	38	38	38	38
<i>P</i>	Pearson Correlation	-.591**	.812**	.354*	-.083	1	-.807**	.124	-.851**
	Sig. (2-tailed)	.000	.000	.029	.619		.000	.459	.000
	N	38	38	38	38	38	38	38	38
<i>U</i>	Pearson Correlation	.818**	-.574**	.156	.285	-.807**	1	.344*	.872**
	Sig. (2-tailed)	.000	.000	.350	.083	.000		.034	.000
	N	38	38	38	38	38	38	38	38
<i>I_{ij}</i>	Pearson Correlation	.694**	.193	.672**	.202	.124	.344*	1	.322*
	Sig. (2-tailed)	.000	.246	.000	.225	.459	.034		.049
	N	38	38	38	38	38	38	38	38
<i>E_{ij}</i>	Pearson Correlation	.905**	-.658**	-.007	.151	-.851**	.872**	.322*	1
	Sig. (2-tailed)	.000	.000	.968	.366	.000	.000	.049	
	N	38	38	38	38	38	38	38	38

** . Correlation is significant at the 0.01 level (2-tailed). * . Correlation is significant at the 0.05 level (2-tailed).

The correlation analysis results shown in Table 4.2, the following conclusions:

1. From the empirical analysis results, there is a positive correlation between the scale of China Mongolia economy and the scale of bilateral trade. At a significance level of 0.01%, the correlation coefficient is 0.414**. The correlation coefficient has a significant effect on promoting trade between the two countries. As the economies of both countries grow larger, the role of promoting China Mongolia regional economic cooperation will increase. It can be said that for every percentage point increase in the GDP of the two countries, the total bilateral trade flow increased by 0.414%.

2. There is a positive correlation between the economic development level of China Mongolia and the scale of bilateral trade. This means that the level of economic development has a positive effect on the scale of bilateral trade. For every percentage point increase in GDP per capita, the total volume of bilateral trade increases by 0.297%. Judging from the actual situation, developed and developing countries have a high level of economic development, relatively close trade exchanges, very close regional economic cooperation. But, the low level of economic development among developing countries is not large, so bilateral trade is inactive, regional economic cooperation is not close, and it is always in the initial stage of regional economic cooperation.

3. There is a positive correlation between the degree of opening up of China and Mongolia and the scale of bilateral trade, with a correlation coefficient is 0.205. This relationship number indicates that the bilateral trade is not close enough to some extent, not only is the regional economic cooperation between China and Mongolia not close enough. For China, although it has been implementing the policy of opening to the outside world since its opening in 1978, compared with other developed country, it has a lower degree of opening to the outside world and has a lower ability to absorb foreign capital. For Mongolia, since the 1990's democratic revolution open policies have been adopted since then. The reason is that due to the instability of the political system and the repetition of policies, the effects of the open policies of China and Mongolia have not fully reflected.

4. There is a negative correlation between the population of China and Mongolia and bilateral trade at a significance level of 0.01. Because it is population growth that deepens the domestic division of labor, the low per capita income levels of countries and regions with large populations are significant, which reduces consumption capacity and leads to a reduction in import demand for foreign

trading partners. On the other hand, a country with a large population obviously has a larger market size than a sparsely populated country, so the corresponding market demand is greater. From this situation, this effect may be significant for countries with small populations.

5. There is only a strong positive correlation between the level of urbanization and the scale of bilateral trade at a significance level of 0.01. From the municipal analysis, there is a positive correlation between the level of urbanization and total exports, and there is a correlation between the rate of urbanization and total imports. Therefore, there is a strong correlation between the scale of bilateral trade and the level of urbanization.

6. There is a significant positive correlation between the scale of bilateral trade and the volume of imports and exports. As the economies of the two countries continue to expand, the volume of imports and exports to the two countries continues to increase, while the scale of bilateral trade expands. As Mongolia's increased export diversification reflects the expansion of the economy, potential import demand or potential consumer demand increase. Therefore, increasing export diversification and the flexibility of China Mongolia economic and trade cooperation mechanism have a certain role in promoting the expansion of bilateral trade.

Conclusions. Although China Mongolia regional economic cooperation always has been a state of non-stability in the region, and the two countries have also faced stagnation in the process of cooperation development, it is still necessary to see the benefits that such cooperation can bring to the two countries. Because of this, the efforts of the two countries from top to bottom are needed. The cooperation between China and Mongolia in various fields such as politics, economy, trade, culture, education and environmental protection has also entered a stage of steady development. Through an empirical analysis of the impact of China Mongolia regional economic cooperation, it can be seen that the bilateral trade scale between the two countries and the China Mongolian economic scale are positively correlated at a significance level of 0.01, the bilateral trade scale between the two countries and the China Mongolia economic development level, there is a positive correlation between the volume of imports and exports and the degree of opening to the outside world, and there is a negative correlation between the scale of population and bilateral trade at a significance level of 0.01. There is a strong positive correlation between the scale of bilateral trade between the two countries and the level of urbanization at a significance level of 0.01. This result shows that some factors have played a positive role in China Mongolia regional economic cooperation, and some have played a negative role.

As the second largest economy in the world, China has led the progress of bilateral cooperation in the development of regional economic cooperation between China and Mongolia, and played a key role in promoting China Mongolia cooperation. However, Mongolian lack of population, policy repetitiveness and instability, technological system evolutionary stagnation, economic growth instability, and vigilance against China have, to some extent, directly or indirectly restricted the relationship between China and Mongolia Regional economic cooperation and development.

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