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Mongolia Reassesses Foreign Policy Strategies After 25 Years of Democracy

BY ALICIA CAMPI

Mongolia is spending 2015 celebrating 25 years of democracy while reassessing its progress in nation building and economic development. Mongolia's government, as it enters into a two-year-long election cycle, has made restoring FDI and reviving the economy its top priorities while being responsive to popular concerns about mineral-based development. This political reality may negatively impact discussions with foreign investors on operating its state-owned mining deposits, Oyu Tolgoi (OT) (copper) and Tavan Tolgoi (TT) (coal/uranium). However, it is worth recalling that ex-communist Mongolia successfully reinvented itself as a free market, globally connected democratic nation that still has much to offer to its region.

Alicia Campi, President of the US-Mongolia Advisory Group, explains that “ex-communist Mongolia successfully reinvented itself as a free market, globally connected democratic nation that still has much to offer to its region.”

Trends over the Last 25 Years

The vibrancy of Mongolia's democracy is evidenced in its 12 national elections (presidential and parliamentary) and 16 local parliamentary elections since 1990. The overarching concept guiding the country's political and national security has been its 'third neighbor' policy of balancing its relations with its two border neighbors, Russia and China, and reaching out to other democracies including the U.S., Japan, the European Community, and South Korea, for political and economic support. Mongolia upgraded its military expertise via U.N. peacekeeping operations in Iraq, Sudan, Congo, and Western Sahara, and 13 years of joint multinational military exercises called Khaan Quest hosted annually by Mongolia and co-sponsored by U.S. Army, Pacific and U.S. Marine Corps Forces, Pacific. Concurrently, Mongolia has annual military exercises with Russia and conducted eight rounds of anti-terrorism and border defense consultations with China.

The country's traditional herding and agricultural economy has greatly benefited from development of its mining-sector (per capita GDP in 2014 was estimated at \$11,900) and its copper, gold, and coal deposits have been major magnets for FDI. Mongolia during the communist era was dependent on Soviet assistance for one-third of its GDP. In the early 1990s generous foreign assistance from Western nations, particularly Japan, Germany and the U.S., rescued the nation from deep recession. After Mongolia simultaneously implemented market reforms through extensive privatization and joined the World Trade Organization, it established the foundation for economic growth but ushered in major corruption. GDP growth averaged nearly 9% per year in 2004-08, as it reoriented its economy towards FDI in large-scale mining and benefited from high commodity prices. During the 2008 global financial crisis, Mongolia, stimulated by IMF and other loans, strengthened its banking sector and fiscal management. China became Mongolia's major trade partner and investor during the past 15 years, which caused domestic unease and calls for trade diversification. Out of concern that 90% of Mongolia's gasoline and diesel fuel was purchased from Russia, the Mongols since 2014 have diversified foreign suppliers and moved to construct domestic refineries.

The country's major economic stimulus has been a 2009 parliamentary investment agreement with a Rio Tinto-led international consortium to develop OT, a giant copper-gold deposit. Mongolia's GDP growth soared to a high of 17.5% in 2011 before beginning its descent. In 2014 growth was 7.8% with OT revenues alone contributing 4.8 percentage

The East-West Center promotes better relations and understanding among the people and nations of the United States, Asia, and the Pacific through cooperative study, research, and dialogue. Established by the US Congress in 1960, the Center serves as a resource for information and analysis on critical issues of common concern, bringing people together to exchange views, build expertise, and develop policy options.

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points. However, the agreement’s terms and FDI in general have become controversial domestically, causing investment legislation reversals and protracted disputes with foreign investors that have damaged FDI attractiveness. Today Mongolia, with almost a 30% poverty rate, faces loss of investor confidence and a precipitous FDI drop. Slowing Chinese demand for Mongolian minerals and depressed mineral prices together with loose fiscal and monetary policies have weakened the economy, caused high inflation, and deteriorated the currency. Meanwhile, steep repayments for \$5.35 billion in outstanding loans loom. Such are the challenges prior to 2016 parliamentary and 2017 presidential elections.

The Way Forward

1) Redefinition of ‘third neighbor’: This on-going policy was successful politically in allowing the nation to expand ties with democratic nations to both counterbalance Russian and Chinese influence and increase Mongolia’s international profile. However, it failed to prevent a 90% Chinese monopoly over its economy nor to generate sufficient western FDI. Thus Mongolia is expanding and redefining its “third neighbor” definition to emphasize India, Turkey, Persian Gulf nations, Vietnam, and even Iran to diversify its mineral trade partners and find new sources of energy and consumer goods.

2) Trilateralism: In response to Chinese and Russian rapprochement, since 2014, Mongolia has been promoting a “neighbor trilateralism” policy at the presidential summit level. However, to avoid any misunderstanding about Mongolia’s commitment to democracy, the Mongols in September 2015 initiated a “democratic trilateralism” encompassing Japan and the U.S.

3) Permanent neutrality: In a surprise move, Mongolia announced at the UN in September 2015 that it would seek United Nations ratification of its “permanent neutrality.” While this may free Mongolia from joining the Shanghai Cooperation Organization and Russian Customs Union, it could have ramifications for Mongolia’s continued status in NATO’s Individual Partnership and Cooperation Programme and US-supported Khaan Quest annual military exercises.

4) Promoting new international organizations: One feature of Mongolia’s third neighbor expansion has been to establish an International Cooperation Fund to share its experiences in democracy building, human rights, and market economy with other ex-socialist/communist nations such as Myanmar, Kyrgyzstan, and Afghanistan through training programs for government officials and diplomats. Mongolia also is more active in tackling broader Asian issues that impact its regional transportation grid. Prime examples are the Ulaanbaatar Dialogue on Northeast Asian Security to discuss North-South Korean issues, the Mongolian-Russian-Chinese Northern Railway, and the just announced dialogue platform, Forum of Asia.

5) Greater international activism: The most recent example is the election of Mongolia to the UN Human Rights Council for 2016-2018 on October 28th with the highest vote count among the Asian candidates. In 2016 it will host the World Economic Forum’s East Asia Summit and the 11th annual Asia Europe Meeting (ASEM).

6) Brand Mongolia: Mongolia in 2013 initiated a “branding” export campaign aimed primarily at organic agricultural and nomadic products. The goal is to increase and diversify trade, FDI, and tourism.

U.S. policymakers, regardless of party, have supported Mongolia’s free market and democratic development over the past 25 years. Both countries recognize that their strong political-military neighborly relationship must ultimately be reinforced by greater economic ties. This is the challenge in front of the new U.S. Ambassador, Ms. Jennifer Galt, appointed in September. Despite the obstacles, U.S.-Mongolian relations continue to prosper because Mongolia is committed to democracy. President Elbegdorj at the 25th anniversary celebrations mentioned three points crucial for Mongolia’s future: 1) Development of Mongolia’s democracy depends only on the Mongols, 2) Mongolia should focus now on combating terrorism but learn from its own communist experience, 3) Democracy “is a really difficult and torturous process....Therefore, we should make efforts every day for democracy and take care of it.”

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APB Series Editor: Dr. Satu Limaye
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Dr. Alicia Campi is President of the US-Mongolia Advisory Group and researcher at the Reischauer Center/SAIS at Johns Hopkins University. She can be contacted via email at usmagcampi@aol.com.