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Author(s): Li Narangoa

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Mongolia in 2011

Resources Bring Friends and Wealth

ABSTRACT

Mongolia has been successfully developing its external relations and mining sectors for some years, but 2011 marked a new stage in its success in these areas. The mining boom pushed economic growth to a new level; Mongolia is now one of the fastest-growing economies in the world.

KEYWORDS: mining, economy, diplomacy, election law, nuclear energy

FOREIGN RELATIONS

The year 2011 brought a new confidence to Mongolian external relations. Since the collapse of the Cold War and the democratization of Mongolia in the early 1990s, the government has been determined to reconfigure the country, land-locked between two giants, Russia and China. Officials have adopted a policy of actively seeking strong partnerships beyond Russia and China, an effort they call the Third Neighbor Policy. The most important Third Neighbors have been Japan, the U.S., and Korea, followed by Germany and India. The government also uses different categories to refer to the strength or importance of these relationships. The top category is the “strategic partnership,” followed by the “comprehensive partnership.”¹

LI NARANGO A is Professor at the College of Asia and the Pacific, Australian National University. She would like to thank Ms. Lutaa Badamkhand and Mr. Tserendorj Jambaldorj for providing materials. Email: <li.narangoa@anu.edu.au>.

1. A “comprehensive partnership” is a collaboration in all important areas such as politics, the economy, technology, education, science, culture, and more. A “strategic partnership” can also include collaboration on broader issues but implies more intensive collaboration in certain areas such as trade, security, and technology. Mongolia has a common border with China, and most of Mongolia’s trade is with its neighbors. Mongolia is also working on upgrading its partnership with Russia to a strategic one.

Asian Survey, Vol. 52, Number 1, pp. 81–87. ISSN 0004-4687, electronic ISSN 1533-838X. © 2012 by the Regents of the University of California. All rights reserved. Please direct all requests for permission to photocopy or reproduce article content through the University of California Press’s Rights and Permissions website, <http://www.ucpressjournals.com/reprintInfo.asp>. DOI: AS.2012.52.1.81.

Japan was the first Third Neighbor, the relationship with it being identified as a comprehensive partnership² in 1997 and elevated to a strategic partnership in 2010. The partnerships with the U.S. (since 2004) and India (since 2009) have been regarded as comprehensive partnerships. In 2011, Mongolia's relationships with Korea and Germany were also elevated to the comprehensive partnership list following respective visits by South Korean President Lee Myung-bak in August and German Chancellor Angela Merkel in October. Both reached agreement with Mongolia's leaders to boost resources and energy cooperation.

In partnership relations with its immediate neighbors and Third Neighbors in the past, Mongolia had been in a somewhat weak position, an underdeveloped country that needed aid but had not much to give in return. But now the situation is changing. Mongolia has vast mineral resources, including silver, gold, coal, uranium, and rare-earth elements that are in demand in industrial countries. Thus, Mongolia has become a hot spot for foreign investment and has used this economic interest to develop a broader range of relations.

Merkel's visit marks a turning point in the German-Mongolian relationship from an aid provider-receiver relationship to something closer to a partnership of equals. The two countries reached a commodity agreement that promises Germany, among other things, a supply of Mongolian raw materials without limits. Mongolia benefits from the fact that the raw materials will be processed domestically. This stipulation is especially important because it will bring employment opportunities to a country that still has hardly any industry and where the unemployment rate is high.

As well as receiving foreign leaders, Mongolia's top leaders visited countries critical for economic and political development and signed agreements on economic collaboration and knowledge and cultural exchanges. Mongolian Prime Minister Sukhbaatar Batbold and half of the cabinet visited Australia in February and China in June. While the prime minister was in Beijing, President Tsakhia Elbegdorj visited the U.S. and Russia.

The visits to China and Russia are important because these countries are still the most important trading partners and the main power and energy suppliers to Mongolia. About 90% of Mongolia's exports were destined for

2. "Mongolia's President Elbegdorj and Japan's Prime Minister Kan Sign Mongolia-Japan Joint Declaration on Strategic Partnership," November 20, 2010, Office of the President of Mongolia, Public Relations & Communications Division, <<http://www.president.mn>>.

China in the first half of the year. Mongolia needs external energy sources to develop its vast mining potential and ever-growing economy; it imports about 90% of its petroleum products from Russia. In this context, Mongolia is still very dependent on its direct neighbors, and has been cautiously building good relations with them.

Although at the government level, Mongolia and China have had “mutually trusted partnership relations,” the Mongolian public still has a huge mistrust toward China. The historical and political memory is still fresh of Chinese threats to Mongolian independence and of what were perceived to be predatory economic practices by Chinese traders and moneylenders. During the visit of the Mongolian prime minister in June, the two countries elevated their ties to a strategic partnership.

Mongolia has also been developing its relations to Russia to the same level. During the visit of the Mongolian president, both sides agreed to establish a joint think tank on creating free-trade agreements between members of the Eurasian Economic Community (EAEC)³ and Mongolia. The arrangement will contribute to increasing bilateral trade and other areas of economic cooperation. Further afield geographically, the U.S. as a Third Neighbor is important for Mongolian foreign relations as a counterweight to Russia and China. Australia is significant because it has strong mining expertise that should help to develop Mongolia’s mining industry—but it is also a potential rival for the mining market.

THE ECONOMY

The year 2011 marked a new stage in Mongolia’s economic development. Economic growth reached 16.9%. This is a 10% increase compared with 2010, and makes Mongolia one of the fastest growing economies in the world, mainly because of the booming mining industry.

In terms of mining, about 50% of the Oyu Tolgoi mine project has been built; it is expected to start exporting from 2012, a year earlier than the original plan. The tenders for the Tavan Tolgoi coal mine in the Gobi Desert,

3. This originated from the Commonwealth of Independent States customs union set up among Belarus, Russia, and Kazakhstan in 1996. Later, it was joined by Kyrgyzstan and Tajikistan; the Eurasian Economic Community was created in 2000 to promote a common customs area, external economic policy, tariffs, prices, and other aspects of common market development. Current members are Belarus, Russia, Kazakhstan, Kyrgyzstan, and Tajikistan.

the world's largest coal mine with 6.4 billion tons of reserves, are still to be finalized. Ulaanbaatar announced in July 2011 that the Tavan Tolgoi tender would go to China's largest coal company, Shenhua Group (40%), a Russian-Mongolian concern (36%), and U.S.-based Peabody Energy (24%). But under pressure from Japan and Korea, the government has been revising this plan. The eastern half of the mine will be developed by Erdenes, Mongolia's 100% state-owned company. Erdenes will maintain a 50% stake in the project; the rest will be open to every citizen of Mongolia and to foreign investors. So far, Australian McMahon and German BBM Operta have received mining contracts. Erdenes plans an initial public offering in the first quarter of 2012.⁴ There have been discussions over the notion that 20% of its share should go to individual citizens.

Economic growth is also seen in agriculture. For the first time in its history, Mongolia became self-sufficient in 2011; it produced 450,000 tons of crops (harvested 433,400 tons of grain, 191,500 tons of potatoes, and 97,200 tons of vegetables).⁵ Mongolia's annual crop consumption is about 400,000 tons. This expansion is partly due to the government's active policy of encouraging agriculture. About 43 million head of livestock were counted in the first half of 2011, which is on the way to recovering to the level of 44 million before the *dzud* (extreme harsh weather conditions) in the winter of 2009–10 that caused a loss of 9.7 million livestock.

Despite these positive economic indicators, there were challenges facing the economy: growing inflation and a shortage of infrastructure and energy. Inflation reached 10.2% in 2011, and it has been predicted that it would accelerate to an average 18.7% in 2012. The Bank of Mongolia, the central bank, aimed to keep the inflation rate at 5.5%, which would be ideal for healthy growth. To prevent hyperinflation, the bank increased interest rates five times in 2011. But despite the efforts of the central bank and the government to keep Mongolia's inflation to one digit, the rate remained at an average 10.2% during 2011. The main factors driving inflation were price rises in food (meat in particular) and petroleum, and the growth in government

4. "Tavan Tolgoi Tender Goes to China, Russia, and United States," Mongolia Briefing, July 29, 2011, <<http://mongolia-briefing.com/news/2011/07/tavan-tolgoi-tender-goes-to-china-russia-and-united-states.html>>, accessed on November 15, 2011.

5. "Mongolia Has Biggest Ever Harvest," National Association of Mongolian Agricultural Cooperatives, October 11, 2011, <http://www.namac.mn/index.php?pid=4&news_id=480>, accessed November 10, 2011.

spending. The proposed budget for 2012 is more than US\$3.8 billion, which is an all time record for expenditure growth for Mongolia.

The second challenge for Mongolia's mining and economic development is building an efficient transport infrastructure. Mongolia has about 3,000 km of paved roads and just over 2,000 km of railways. New road and railway construction projects have been planned linking the coal mines to the outside world. Coal transport to China has mainly relied on trucks running mostly on gravel roads, which Mongolia has been paving. A new paved road, the Khushuut Road (311 km), stretching from the Khushuut mine to China's Takeshenken border (Xinjiang Province) was completed at the end of 2011. Truck transport, however, is costly for long distance. Exporting coal by railways is more cost efficient. Mongolia decided to build a railway linking the Tavan Tolgai mines and Choibalsang to connect through the existing railway network to two Russian ports, Vanino and Vostochnyi. This decision was criticized by miners because the route is much longer, and thus more expensive, than transport through the Chinese railway network to ports near Tianjin, Hebei Province.

For Mongolia, however, it was strategically important to build this east-west connection. First, it offers an extra export route and avoids overdependence on China. Second, east-west transport has been very poor, and this new railway will improve communication and stimulate economic development of the eastern provinces. Third, Russia is the country's biggest supplier of energy, which Mongolia desperately needs for its mining and economic development, so Ulaanbaatar has to be on good terms with Moscow.

The mining boom in the Gobi area is showing the first sign of producing environmental effects. Coupled with lack of rainfall, the water shortage is becoming severe in the south Gobi Desert, spurred by increased water consumption by the mining industry. To meet this water shortage, the Mongolian government plans to explore for underground water sources in the areas of Tavan Tolgoi and Sainshand, as far as the Chinese border.

POLITICS

In January, some members of the Mongolian People's Party (MPP) broke away and formed a new Mongolian People's Revolutionary Party (MPRP). These members resented the fact that the party had changed its name from MPRP to MPP by dropping the very word "Revolutionary" that the party

had originally based its identity upon. The reincarnated MPRP is headed by former President Nambaryn Enkhbayar. Whether this fraction has weakened the MPP and whether this new party with the old name can develop into a major political power in the coming parliamentary election in June 2012 are yet to be seen.

The public confidence in the government is not very high. Corruption is one of the major reasons. Making Mongolia highly susceptible to corruption are several factors: a lack of transparency in the lands authority, mining directorate, and customs authority, coupled with a lack of regulation to guard against conflicts of interest by public officials engaging in related private business. Despite the government's efforts to reduce corruption through international anti-corruption organizations, the perceived level is still high. According to Transparency International, Mongolia was ranked 120 out of 183 countries that participated in a survey, conducted between 2010 and 2011.

The government also failed to implement the Environmental Law that was proclaimed two years earlier. A Mongolian environmental group, the United Movement of Rivers and Lakes, sued the government for damaging rivers by not enforcing the law and allowing mining companies to continue operating along river basins and forest areas. The Mongolian Supreme Court ruled that the government must enforce the environment protection law. This was a victory for the group, but the government brought a criminal case against this group on the charge of damaging mining equipment by firing on it with hunting rifles.

The Mongolian public and environmentalist groups were also very much alert to the possible construction of a U.S.-Japan joint nuclear waste facility in Mongolia. Environmentalist groups staged a protest during U.S. Vice President Joe Biden's visit in August.⁶ As a result of public pressure and with the 2011 parliamentary election in sight, President Elbegdorj issued a presidential order prohibiting any negotiations on waste storage with foreign states and organizations. Despite its decision not to accept nuclear waste from abroad, Mongolia may produce nuclear waste within its own borders in the future. Faced with an energy shortage driven by the need to develop the country's great mining potential, the construction of a nuclear power station is very much on the agenda. One station alone would provide 33% of the total

6. "U.S. VP Hopes to Boost Cooperation in Renewable Energy with Mongolia," *People's Daily Online*, August 23, 2011, <<http://english.peopledaily.com.cn/90777/7577002.html>>, accessed November 12, 2011.

energy consumption of Mongolia. Although discussions grew cautious after the nuclear crisis in Japan, plans have not been abandoned. Mongolia still intends to start preparing for the construction of a nuclear power station with the help of Japanese technology, and aims to start production from 2017.⁷ Instead of learning from Australia, a uranium-rich country with an established mining industry but no nuclear power stations, Mongolia seems to have chosen the Japanese path regardless of the consequences that nuclear power may bring to its people and environment.

The new parliamentary election law that passed the State Ikh Khural (Mongolian Parliament) in December also marked a new stage in Mongolian politics. Mongolia introduced a proportional voting system whereby voters will vote for a party rather than for candidates. Mongolian parliamentary elections had followed a majoritarian system, meaning that only individual candidates nominated by their parties were elected. The new election law is a combination of this majoritarian system and a proportional system based on the ratio of 48:28. In other words, 48 of 76 parliamentary seats are for individual candidates nominated by their parties, while the remaining 28 seats are for political parties. Small parties had been in favor of the proportional system because it would give them a better chance of gaining seats in Parliament. According to the new law, however, in order to gain a seat a political party must get 5% of the total national vote, which might be a difficult threshold for a small party to achieve.

7. Sasaki Ken'etsu, "Mongoru koku no kaku haihatsu sōdō" [The nuclear power issue of Mongolia], *Shūkan kinyōbi*, no. 862 (September 9, 2011).