

MONGOLIA IN NORTHEAST ASIA—THE NEW REALITIES

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Mongolia's view of its relationship and integration with Northeast Asia over the last few decades has evolved considerably. During the socialist era of 1921-1989, when its foreign and economic policies were dominated by the Soviet Union and influenced by both countries' volatile relationship with the People's Republic of China (PRC), Mongolia was often suspicious of and distant from its Northeast Asian regional neighbors. In the 1930s Japan, through its occupation of Manchuria, became actively interested in Mongolia, and promoted Pan-Mongol propaganda. The Soviet Union saw Japanese activities as a direct threat to its control of Siberia, leading Stalin to conclude a mutual defense pact with Mongolia which permitted Soviet troops to be stationed in the country. Spying for Japan was used as the pretext for purges among Mongolia's government and military. The Japanese attack in eastern Mongolia along the Nomin River in 1939, although successfully repulsed, further alienated Mongolia from any association with this regional neighbor. Dr. Ts. Batbayar has written, "The image of Japan as "an enemy" and of the Japanese people as "samurai warriors" were cultivated very strongly in the minds of ordinary Mongols during the Soviet period," through ideological propaganda.¹ Afterwards, during the Cold War, Mongolia withdrew even further into isolation in response to Japan's role as a staging base for American troops in the Korean War, and the establishment of a South Korean Government in rivalry to the communist North Korea.

It can be argued that it was Mikhail Gorbachev's rethinking of Russia's role in Northeast Asia, as epitomized by his 1986 Vladivostok initiative,² which was the catalyst for Mongolia's seeking a more active role in Northeast Asia. In fact, when Gorbachev at Vladivostok offered to remove some Soviet troops from Mongolia, Ulaanbaatar understood that it too was going to have to employ "new thinking" in its foreign policy and strategy for the region. Mongolia was given permission to move forward on negotiations to establish diplomatic relations with the U.S. during Soviet Foreign Minister Eduard Shevardnadze's

¹ Tsendendamba Batbayar, "Mongolia's Foreign Policy in the 1990s: New Identity and New Challenges," RSIM, No. 17, 2002, pg. 204.

² For further interpretation see Sharad K. Soni, *Mongolia-Russia Relations, Kiakhta to Vladivostok* (Shipra Publications: New Delhi), 2002, pp. 217-225.

January 1986 visit to Ulaanbaatar. The fears of and pressures on the Mongolian leadership during those years are outlined in D. Yondon's book, *The Big Veto*.³ January 27, 1987 bi-lateral relations were formally established. That same year Mongolia's Foreign Minister visited Japan. In August 1989 Mongolia suggested the creation of a political dialogue mechanism in Northeast Asia to discuss non-political issues, aimed at cooperation in the fields of economy, science and technology, culture and education, ecology and humanitarian links.⁴

Mongolia experienced its own peaceful revolution against communism in the spring of 1990. The Mongolian People's Revolutionary Party (MPRP), acutely aware of the dramatically changing international situation throughout the collapsing Soviet Union and Eastern Europe, as well as influenced by the Tian An Men incident in the PRC (of maintaining communism at gunpoint), decided to renounce its communist philosophy and open up the nation. Diplomatic relations were established with the Republic of Korea (South Korea) in 1990, despite Mongolia's traditional strong ties to North Korea.

In the beginning of the 1990s Mongolia's bilateral relations with crisis-filled Russia broke down. Although a February 1991 visit of Mongolian Prime Minister D. Byambasuren to Moscow concluded a new Declaration on Friendship and Good-Neighborly Cooperation, which included a protocol on economic cooperation, Soviet-era construction projects quickly were withdrawn; trading of Mongolian copper and other minerals, meat products, leather goods, and carpets for Russian oil and energy-related spare parts in a new hard currency system had to be suspended because Moscow had no funds; and the issue of the huge Mongol debt to Russia could not be resolved. The import of petroleum products in early 1992 was reduced to only 21% of needed supplies,⁵ resulting in great hardship that winter for the Mongolian people. It was clear that new sources of energy and consumer goods immediately needed to be found.

³ D. Yondon, Ulaanbaatar, 1997. This book has been translated into English by R. Baasan at Indiana University and the contents will be analyzed in her upcoming book with A. Campi on The History of U.S. and Mongolian Relations in the 20th Century.

⁴ Ts. Batbayar and K. Demberel, "Contemporary Mongolian-Russian relations: Problems and Perspectives," in proceedings of The Geopolitical Relations between Contemporary Mongolia and Neighboring Asian Countries: Democracy, Economy and Security (Mongolian and Tibetan Affairs Commission Conference, September 2003), pp. 329-330.

⁵ *Ibid.*, pg. 333.

Searching for a Third Neighbor

Russian troop withdrawal was completed on September 15, 1992. Mongolian leaders recognized that it was necessary to declare their intention to pursue a new foreign policy of balanced relations with Russia and the PRC. As Dr. Ts. Batbayar has said, “The top priority in Mongolia’s next diplomacy was to fill the vacuum in its foreign relations created by the Soviet Union’s disintegration.”⁶ Thus, in this climate of crisis and uncertainty began a debate, which continues to the present, of devising a new approach to economic and strategic security for the Mongolian nation. Often this security debate is labeled: Mongolia’s search for a Third Neighbor—a concept attributed to U.S. Secretary of State James Baker on his 1991 trip to Mongolia, who noted that Mongolia has two good neighbors, but, if it needed a third, the U.S. would be happy to be it.

The main pillars of Mongolia’s new international strategy were incorporated in Mongolia’s National Security Concept adopted on June 30, 1994. This document, approved by the Mongolian Parliament, emphasizes a balanced policy towards the country’s two giant neighbors, underlines the importance of economic security in protecting Mongolia’s national integrity, and warns about too much dependence on any one country for trade.

Japan

Initially, the Mongols thought that they could look for a strong economic partner for protection, hoping that the end of the Cold War meant politics and military might were no longer vitally essential to sustain national sovereignty and be a successful nation. Such a view was logical in the context of the early 1990s when the Big and Little Tigers of Asia were militarily weak but economically powerful. The prime example of this philosophy was Japan, which already had a historical interest in Mongolia and some economic investments in the cashmere hair sector. It was thought that Japan would be willing to be active in Mongolia’s economy, because Japan organized for Mongolia broad-based assistance programs as early as 1991 and offered to host regular international donor coordination conferences in Tokyo. Japanese assistance was channeled towards satellite telecommunications and railroad upgrading, so that in 1991 total Japanese aid to Mongolia jumped more than ten times.⁷ Japan became Mongolia’s largest international donor, usually giving \$70-90

⁶ Ibid, pp. 333-334.

⁷ Batbayar, “Mongolia’s Foreign Policy,”ibid., pg. 193.

million in aid per year. Just from 1993 to 1997 Japan's development assistance totaled \$US507 million, \$261 million in grant aid, \$127 million in technical cooperation, and \$118 million in loans.⁸

There were many exchanges of visits at the level of Prime Minister and Foreign Minister, and by 1996 with the accession of the Mongolian Democratic Coalition Government to power; both sides were calling for a new comprehensive partnership concept that would cover political and security as well as economic relations. At the end of the 1990s the Japanese government pledged 16 billion yen for the renovation of the fourth Ulaanbaatar power generation station and agreed to bring 500 Mongolian students to Japan for study in a period of three years.

There has been some confusion among the Mongol people by the sudden rapprochement with Japan, but since Mongolia is one of the few Asian countries which did not experience any brutalities from the Japanese military during World War II, there is not any deep enmity even among older Mongols. However, it became evident that Japan's direct investment in the Mongolian economy during the first decade of democratization, which was only 11.7% of the total (down from 23.2% in 1995), was very disappointing to the Mongols.⁹ Mongolia's exports to Japan also wildly fluctuated. In 1990 they stood at \$7.6 million, in 1995 increased to \$46.7 million, while in 1999—reflecting Japan's own domestic economic crisis—plunged to \$10.9 million. In 2000 this drop continued to \$8.1 million.¹⁰ Moreover, Mongolia's trade deficit with Japan grew dramatically. Imports of \$9.8 million which in 1990 had been close in value to exports, jumped to \$45.3 million in 1995 and even to \$115 million in 1999. Then the Mongolian Government, in an attempt to rein in the imbalance, limited Japanese imports to \$73.3 million in 2000, which still was 12% of total imports.¹¹ Such realities of doing business with Japan have convinced Mongolian leaders that Japan is not in a position to be a true "Third Neighbor" for Mongolia.

The United States

During the early transition period some Mongols, including the first democratically elected President, Ochirbat, believed it was very important to quickly establish a strong relationship with the winner of the Cold War—the

⁸ *Ibid.*, pg. 203.

⁹ Terry McKinley, "The National Development Strategy and aid coordination," *Poverty Reduction in Mongolia*, Keith Griffin ed., Asia Pacific Press (Australia: 2003), pg. 140.

¹⁰ *Mongolian Statistical Yearbook 2000* (Ulaanbaatar, 2001), pg. 178.

¹¹ *Ibid.*, pp. 179-180.

United States. Foreign Minister Erdenechuluun in 1999 wrote, “To many Mongolian politicians and government officials, the U.S. would appear as the savior of new Mongolia and “major pillar” in its national security.”¹² Policymakers from both countries saw strategic advantages in strengthening the bilateral relationship. The United States valued Mongolia’s window on Russia and the PRC and from the beginning of the democratic era sought to create a stable free market and democratic model which would positively influence the North Asian region. Although the U.S. was only the third largest provider of donor assistance (which was given entirely as grants with no loans) to Mongolia, in reality there was the donor perception by Mongolia and others in the international community that the U.S. set the agenda. It was the United States that took the lead in devising and supporting programs to accelerate Mongolia’s political reforms and transition to a free market economy. It supported Mongolia’s membership in the IMF and the World Bank, implemented banking reforms, retrained the judiciary, promoted non-governmental organization (NGO) development, pushed for quick privatization of state-owned entities and industries, championed the establishment of a free press, and put Mongolia on the international radar screen in a positive way. If this leadership role had been assumed by Japan or Europe, I believe 14 years into the transition, Mongolia’s society and economy would look very different from what has emerged today.

The U.S. in the early transition years was not afraid to invest through joint ventures, especially in the mining, oil, and camel hair sectors. By the end of the century there were over fifty U.S-Mongolian joint ventures. However, investment momentum slowed down to the point where the Mongolian Ambassador to the U.S., Ravdangiin Bold, in August 2004 told a Mongolian reporter that American investment was stubbornly stagnant. For example, in 1995 U.S. investment was 7.5% of total foreign investment. In the 1990-2001 periods this investment share was still 7.3%.¹³ However, Mongolian-made textiles found a big export market in the U.S. since 1999, when Mongolia was granted free-trade status. Exports to the U.S. which totaled \$900,000 in 1990 skyrocketed to \$92.9 million in 2000, second only to China’s \$274.3 million. U.S. imported goods rose from zero in 1990 to \$28.4 million by 2000 (ranked 6th).¹⁴

¹² L. Erdenchuluun, “Mongolia’s strategic options,” *Northeast Asia towards 2000: Interdependence and Conflict?*, K. Kho and K. Moller, ed. (Baden-Baden, Germany: 1999).

¹³ McKinley, pp. 140.

¹⁴ *Ibid.*, pp. 179-180.

The U.S., which had offered Mongolia emergency energy assistance back in 1991, then provided emergency butter and wheat in the mid-1990s, was very active in supplying emergency aid during the harsh winter *dzud* disasters for three successive years from 1999-2002. Perhaps one of the most significant aspects of the growing bilateral relations has been in defense cooperation for military education and training to modernize the Mongolian armed forces for international peacekeeping activities. American foreign policy experts have described bilateral consultations on improving Mongolia's border communications as helping "...Mongolia balance its bilateral relationships with its two large neighbors and its relationships with other countries in the region."¹⁵ Yet, former U.S. Ambassador to Mongolia, Alphonse La Porta suggests that the U.S. and Mongolia have moved beyond the rhetorical "third neighbor" approach cited by Secretary of State James Baker,¹⁶ and no American official today will declare that the U.S. is willing to protect Mongolia from any enemies.

Northeast Asia

In the mid-1990s after no single nation rose to assume the mantle of "Third Neighbor," Mongolian thinking turned to advocating a new relationship with Northeast Asia that went beyond economic ties to include political considerations. Policy strategists including R. Bold, then President of the Strategic Studies Centre and now Ambassador to the U.S.;¹⁷ J. Enkhsaihan, former Secretary of the National Security Council and former Mongolian Ambassador to the U.N. in NYC;¹⁸ late Kh. Olzvoy, former Ambassador to the U.N. in NYC¹⁹; and especially L. Erdenechuluun, former Mongolian Ambassador

¹⁵ Alphonse La Porta and Andrew J. Critchfield, "U.S.-Mongolian Relations: Two Years of Progress," in *The Mongolian Journal of International Affairs*, No. 7, 2000, pp. 5-6.

¹⁶ For further discussion on the Baker statement see the memoir of late ambassador Olzvoy, who participated in negotiations with Secretary Baker in July 1990, Kh. Olzvoi, "J. Beikeriin Ailchlal xiigeed "guravdaxi tunsh"—uun asuudald," *Olon Ulsin Xariltsaa World Affairs*, Vol. 184 (5), 2002, No. 1 (Ulaanbaatar,), pp. 166-168.

¹⁷ R. Bold, "The Security of Small State: Option for Mongolia," *RSIM*, No. 9, 2001. A more expansive version of Bold's views are found in his Mongolian-language book, *Mongolin ayulgui baidlin orchin, batlan xamraalax bodlogin zarim asuudald*, Strategic Studies Center (Ulaanbaatar, 1996).

¹⁸ J. Enkhsaihan, "Nuclear-Weapon-Free Status: Concept and Practice," *RSIM*, No. 5, 2000.

¹⁹ Kh. Olzvoy, "A Mongol's View of Economic Development and Cooperation in Northeast Asia," *Mongolian Journal of International Affairs*, No. 3, (Ulaanbaatar: 1966).

to the U.N. in NYC and now Foreign Minister, all promoted close association with Northeast Asia as the key to Mongolia's economic growth, national security, and integration into the global economy. As Minister Erdenechuluun wrote, "...a single regional player able to outweigh Russia and China can simply not be conceived of in the foreseeable future. One might therefore not think of this neighbor in terms of a single country, but rather as a group of countries."²⁰ Ambassador Olzvoy was even more specific, "Northeast Asia is expected to play a greater role in the diversification and expansion of Mongolia's foreign economic activities."²¹

It might be speculated that seeds for this viewpoint were sown by the rise in the first half of the 1990s of what has been called "The New Asianism"—"an idea that Southeast Asians and Northeast Asians are united by common values rooted in shared Asian cultural traditions that differentiate them from Westerners."²² This theory's proponents were inspired by regional leaders such as Malaysia's Prime Minister Mahathir and Singapore's retired Prime Minister Lee Kwan Yew. The Asian mood was very upbeat, "The tremendous economic progress which has been made by the Pacific Rim countries in general, and the market economies of Northeast Asia in particular, portends an exciting new Pacific Era in the upcoming 21st century."²³ However, most Mongolian policymakers, even before the 1997-1998 Asian financial crises which exposed the weaknesses of the East Asian economic miracle, were reluctant to embrace Asia if that meant rejecting western countries. Likely this was because the nomadic traditional civilization and more recent Soviet-style command economy of the Mongols had few shared values and philosophy with other Asian nations. More importantly, I believe, is the fact that the Mongols were not convinced that Mongolia's security could be guaranteed by economic means alone.

This is why Mongolian strategists saw both the necessary role of military and political power and the United States as an essential economic partner and

²⁰ Erdenechuluun, *ibid.*, pg. 95.

²¹ Khumbagyn Olzvoy, "Political and Economic Aspects of Mongolia's Transition into a Market Economy," *Regional Economic Cooperation in Northeast Asia, Proceedings of the Yongpyeong Conference* (Yongpyeong, South Korea: September 26-28, 1993), pp. 215-216.

²² John Miller, "The Roots and Implications of East Asian Regionalism," Asia-Pacific Center for Security Studies, Occasional Paper Series, Honolulu, August 2004, pg. 6.

²³ Won-Shik Chung, "Toward a Sharing Community: Multilateral Economic Cooperation Prospects in Northeast Asia," *Regional Economic Cooperation, ibid.*, pg. 24.

ultimate guarantor of regional security. Even Ambassador Olzvoy, who did not include the U.S. in his 1996 definition of Northeast Asia, did not believe the effects of the Cold War could be swept from the region in only a few years, and predicted that Mongolia would come strategically under the economic umbrella of the U.S., as well as the Japanese and South Koreans.²⁴

Mongolia was comfortable with a definition of Northeast Asia which was expanded to embrace, if not to actually include, the U.S. and Canada across the Pacific Ocean, as well as the usual Northeast Asian countries. Dr. Otgonbaatar, Dean of the School of International Relations at Mongolian National University, has written: "Interpretations are underway to include west coast of Canada, Northern parts of the Pacific realm such as American Hawaii and Alaska which shows, in turn what kind of important role those countries play in the region."²⁵

Russia and the PRC

This same realistic attitude was evident in Mongolia's opinion about its two neighbors, Russia and the PRC, as crucial to the mix. Although the neighbors were the very countries Mongolia sought to counterbalance, by including them in the Northeast Asian paradigm, it was less threatening to Russia and PRC China, as well as an attempt to use the other regional players and North America as influential agents to modify Russian and Chinese behavior within the region. Integrating Russia and the PRC into Mongolia's vision of Northeast Asia was necessary because both countries had developed significant trade and investment ties in Mongolia.

By 1995 the disruption of Russian trade, resulting from the collapse of the COMECON system of the Soviet Union, was over. In that year Mongolia imported \$208 million of Russian products (20% in fuels and lubricants) and exported \$68.9 million worth of copper (73.5% of all exports), fluorspar concentrate, and animal products to Russia.²⁶ Nevertheless, Russia was gradually driven out of the Mongolian market by the end of the decade from 85% of the market share to only 25% in 1999. Especially Mongolian export volume to Russia fell about 5 times because of high customs and transportation costs and insolvency of Russian buyers. Russia did continue as a key supplier

²⁴ Olzvoy, "A Mongol's View," *ibid.*, pg. 66.

²⁵ Otgonbaatar, "North East Asian Co-operation and Development Prospectives," Political, Security, Economic and Infrastructure Factors of Economic Cooperation in the Northeast Asia, ed. Lh. Nyamtseren, Mongolian Development Research Center, Ulaanbaatar, 2002, pg. 38.

²⁶ Batbayar, "Mongolia's Foreign Policy," *ibid.*, pp. 103-104.

of oil and some electricity, which is why Russia still is the largest exporter to Mongolia (33.6% of the market in 2000). Russia's loss in the Mongolian market can be attributed to both Mongolia's diversification of trade, and particularly to the PRC's rapid ascent in the Mongolian market. Russian investment fell steeply during the 1990s to 6% over the 1990-2001 periods, even though Russia has retained its key joint ventures in the copper mine at Erdenet and the Ulaanbaatar Railway (out of a total of 170 joint ventures).²⁷ There has been an upturn in Russian investment since 2003.

Batbayar reports that trade with the PRC increased from less than 2 percent in 1989 to about 24% in 1993, and almost 59% in 2000. Although the percentage fluctuated during the 1990s, the PRC's emergence as the key Mongolian trade partner is evident in statistics from the Mongolian Statistical Yearbook 2000. In 1990 PRC China exported only \$11.3 million and imported \$22.3 million worth of goods. By 2000 Chinese exports rose to \$400.1 million (20% of Mongolia's total amount in 2000) and imports stood at \$125.8 million (Mongolia's largest customer). Chinese exports were mostly food, consumer goods, and construction materials. Mongolia's exports included animal skins and hides, cashmere and wool, and copper. The great spurt in the PRC's Mongolian imports at the end of the decade is due to the fact that it has become a key importer of mineral products, especially copper concentrate, from Mongolia to resell to third countries. The PRC became Mongolia's second largest trade partner in 1995 and since 1999 its first largest.²⁸

Korean Peninsula:

A new but significant reason for seeing Northeast Asia as a "Third Neighbor" was South Korea, because in the early 1990s, it appeared to be a good model for development for Mongolia. Mongolia is one of the few countries to practice full-scale diplomatic relations with both Koreas and conscientious about maintaining a balanced relationship. Mongols and South Koreans feel a common racial, linguistic and historical bond which explains the high hopes both nations had in the 1990s for the expansion of economic and educational ties. The KOICA (Korean International Cooperation Agency) has had an active, growing grant aid and technical cooperation program in Mongolia since 1991.²⁹

²⁷ Batbayar and Demberel, *ibid.*, pg. 343.

²⁸ Batbayar, "Mongolia's Foreign Policy," *ibid.*, pp. 104, 137-139.

²⁹ *Ibid.*, pg. 210. In 1992 KOICA granted \$356,000 in aid. By 1999 this grew to \$814,000.

In the 1990s trade turnover increased from \$9 million in 1991 (\$8.1 million in imported ROK goods) to about \$60 million in 2000 (\$54.4 million in ROK imports), making South Korea the fifth largest trade partner for Mongolia (8.4% of Mongolia's total trade).³⁰ In the new century, the number of Korean imports has increased even more, particularly in cars, SUVs, and consumer goods. It is claimed Korean FDI amounted to about \$60 million in 280 joint ventures by the end of 2000. Most of this was connected to Korean textile manufacturers using Mongolia's quota free status with the U.S., although big investors include Korea Telecom in the state owned Mongolian Telecom, Samsung mining with Erdenet copper mine, Hyundai and Kia car companies, and the Skytel mobile phone joint venture.³¹ However, according to Korean statistical reporting, in 2000 Korea only opened in Mongolia 6 new investment projects worth about \$1.5 million which was called "insignificantly small."³²

Perhaps more importantly, South Korea, in response to its own economic crisis in 1998, welcomed cheap Mongol labor, often illegal, in its factories. At least 15,000 Mongols work in the country and send earnings home. Among these workers are a number of Mongolian professional boxers and athletes, who use Korea as a stepping stone to further international recognition. Korean universities have established Mongolian language departments and scientific expeditions to Mongolia have been sponsored by the Korean Government and private NGOS.

As for Mongolia's relations with North Korea (DPRK) in the 1990s, the previous communist era economic ties have basically dried up. However, the diplomatic and parliamentary contacts have persisted at a high level. Mongolia even provided food assistance from time to time. In 1999 the DPRK was forced for monetary reasons to close its Embassy in Ulaanbaatar, but still Mongol Government officials at the ministerial rank continue to engage North Korea on bilateral trade issues and hold discussions on reduction of nuclear weapons. Also, there are continuing cultural exchanges for artists and children.

Major Impacts on Strategic Calculations for Mongolia's Northeast Asian Integration

During the decade of the 1990s and early years of the new century, Mongolia has seen several factors impacting on its strategy of pursuing

³⁰ Ibid., pg. 211.

³¹ Ibid., pg. 212.

³² Ko Sangtu, "Korea's Trade and Investment with China, Russia and Mongolia in 1990's," Political, Security, *ibid.*, pg. 67.

economic and foreign policies designed to forge closer relations with Northeast Asia. These factors, while not negating the importance of Northeast Asia for Mongolia, have significantly altered the rosy picture first painted by policymakers at the beginning of the democratic era.

Asian Economic crisis

Mongolia emerged from its communist isolation in 1990 to see an Asia full of successful economies able to navigate the international trade system in a way that brought prosperity and respect for their peoples. It saw the 4 Asian tigers of Japan, South Korea, Taiwan, and Hong Kong, each unique but following the same pattern of protected by western, usually U.S., military power, and given economic access to the U.S. market. These tigers themselves were investors in Southeast Asia, and crucial to the development of the next generation of little tigers in Singapore, Thailand, Malaysia, and Indonesia. Asian nations even were investing in Russia and the PRC. Although the Japanese Bubble had burst, this was not at all clear in the early 1990s. The Asia-Pacific seemed the most dynamic region of the world, and PRC China finally was concentrating on economics and rejecting polemics in order to grow into the economic giant that had been predicted for over a century. Mongolia thought it could ally itself with its neighbors in Northeast Asia to learn the development process and ride the bandwagon to prosperity. It was thought that it was a time to rely on economics for security, because the Cold War had ended serious military confrontations.

However, by the time that Mongolia dismantled its Soviet-installed command economy, privatized its livestock and industrial holdings, struggled through serious energy and food crises, and re-wrote its laws to encourage foreign investment and establish a free market legal regime, something had happened to the Asian miracle. The nations which Mongolia thought would be eager to invest in the country's vast mineral and animal wealth, especially Japan and South Korea, were contracting because of financial scandals. Bankruptcies followed and then loss of faith in Asian institutions. Money for investment dried up or retreated home. As of 2000 Mongolian FDI, which represented 4.2% of GDP, did not flow predominantly to the mining sector (only 15.5%), which was the case historically in other resource-rich developing countries. An UNDP 2000 poverty study in Mongolia noted that Japan's share of foreign investment in Mongolia was over 23% in 1995 but fell dramatically to only 12% at the end of the decade. South Korean investment was somewhat

better in the second half of the 1990s, rising from 8% of FDI to 13.4% in 2000.³³ Dreams like the Tumen River Project and a Northeast Asian Free Trade Association languished, as did Mongolia's belief that its national security and economic development just could be put into the hands of Northeast Asian countries.

Yet, hopes that Northeast Asia and Southeast Asia can find a way to move forward on steps toward free trade agreements have revived. Recently, ASEAN and Japanese ministers agreed to open negotiations on a free trade pact in April 2005. This follows on the heels of on-going separate negotiations with the PRC, with scheduled negotiations to begin in January 2005 with South Korea.³⁴ However, this latest strategy de-emphasizes a Northeast Asia regional approach, which would be more beneficial to small Mongolia, in favor of agreements with individual Northeast Asian nations. Suren Badral in Mongolia's Foreign Ministry Department of Multilateral Cooperation has criticized this development, "Though the bilateral arrangements of the leading Northeast Asian countries with the ASEAN are not necessarily separatist or selfish acts, they establish precedence for other NEA countries to shift their policy priorities to the ASEAN-centered regional process such as ARF and to intensification of their bilateral ties within the region... On the other hand, the centripetal to [sic] ASEAN process has detracting and distracting implications on the years-long efforts made by many scholars, academic institutions and some governments in Northeast Asia to forge own [sic] regional mechanisms."³⁵

September 11, 2001, the War on Terrorism, and Iraq

The 9/11 terrorist attack and the U.S. Government-led War on Terrorism with its doctrine of preventive military action, changed the strategic landscape in the world. Mongolia and the Northeast Asian region it lived in did not escape. The Bush II administration drove out the Taliban Government in Afghanistan and reached out to Central Asian countries never part of the U.S. sphere of influence to set up military arrangements and bases next to the underbelly of a weak Russian state. At the same time, Russia and the PRC were persuaded to join the War against Terrorism, which improved U.S. relations

³³ McKinley, *ibid.*, pp. 140-141.

³⁴ The New York Times, "Progress is Made Toward Free Trade Pacts Linking Asian Regions," (New York) September 5, 2004.

³⁵ Suren Badral, "Prospects for Political and Security Cooperation in Northeast Asia," The 5th Symposium on Northeast Asian Security," RSIM, Vol. 15, (Institute for Strategic Studies, Ulaanbaatar), 2002, pg. 17.

with both countries, because other points of confrontation were covered up in the cooperative and pragmatic interest of mounting a global effort.

Mongolia immediately rallied to the U.S. side against the Islamic fundamentalists and was the first country in the world to issue a stamp honoring the Twin Towers to raise money for the victims' families. Mongolian leaders saw the opportunity to publicly support the American Government as a way to significantly raise the nation's international profile and gain favorable attention from the Bush Administration. The main actions Mongolia took were to create a peacekeeping agency within its Ministry of Defense, accept U.S. military assistance for training the peacekeeper soldiers, and then dispatched Mongolian troops to Afghanistan to protect the new government. These actions were well publicized to the U.S. Congress which continued to fund Mongolian assistance projects at a relatively high level.

When the United States in 2003 launched an attack against Saddam Hussein and invaded Iraq, Mongolian President Bagabandi and Prime Minister Enkhbayar quickly agreed to join the Coalition of the Willing in Iraq, and have sent 3 rotations of 160 troops each. The war is not unpopular among the people, but has been questioned in the press. The Mongolian Government hopes to use its support for U.S. policy as a successful bargaining chip in other areas of bilateral relations.

Several factors likely played a part in Mongolia's bold moves to support U.S. policies on terrorism and Iraq, not sanctioned by either the PRC or Russia. 1) Mongolia's western regions are the home to its Kazak Muslim minority, which could fall under the influence of radical fundamentalists as happened in Afghanistan and thus threaten the stability of the country. 2) Since 9/11, tension has grown on the Korean Peninsula and Mongolia feels increasing need of an outside protector in this unipolar world. 3) Mongolia has decided it should become a more active and independent player in Asian regional politics and show more visibility in the international arena as a way to counter PRC China's expanding influence. 4) Mongolia has seen the rise in favor and influence of certain Central Asian republics which permitted bases to be opened by the U.S. in the war on terrorism.

Mongolia does not want to be shut out of a role in determining the future of Northeast and Central Asia, so it is willing to participate in military operations to retain its influence with the Bush Administration. It has made the offer to grant landing rights to American military planes. The recent massacre in Beslan, Russia by Chechen terrorists, seemingly with support from Al Qaida elements,

will likely make the Mongolian Government even more supportive of global anti-terrorism policies.

Nuclear policies on the Korean Peninsula

Mongolia declared its territory a nuclear-weapon-free zone in 1992, with the ending of its special relationship with the Soviet Union and the withdrawal of all Soviet troops. It was hoped that Mongolia's actions would positively influence the region. In 1995 R. Bold, then senior fellow in Mongolia's Institute for Strategic Studies (affiliated with the Ministry of Defense), delivered a paper in Hokkaido on Mongolia's views on the idea of a Nuclear Weapon-Free Zone in Northeast Asia: "Coming shortly after the encouraging bilateral declaration to denuclearize the Korean Peninsula in December 1991, it appeared that—with adherence to the three non-nuclear principles of Japan—some real broad basis could be laid down to establish a nuclear-free-zone in the Northeast Asia."³⁶ He and other notable Mongol strategic planners thought that the end of the Cold War would create an atmosphere more favorable to the creation of such a zone in the North Pacific. He did foresee that the Korean Peninsula's situation made the issue very complex, but he felt that Mongolia "could become an excellent nuclear-free-bridge between nuclear-weapon-free zones of the Central and Northeast Asia."³⁷

Throughout the 1990s Mongol leaders believed they should promote their own non-nuclear policies, and therefore hosted several important nuclear security conferences to focus regional and U.S. attention on this issue. Some western experts such as Dr. Stephen Noerper of the Asia Foundation in Mongolia maintained that Mongolia is a valuable resource on and contact with North Korea: "Mongolia views itself as a potential mediator in Korean peninsular affairs, especially given its good relations with both Pyongyang and Seoul and historic, linguistic, and ethnic ties... And Mongolia, with a decade of transitional experience from a Stalinist system, may well have much to offer the peninsula."³⁸

³⁶ R. Bold, *The Mongolia's Strategic View* (The Institute for Strategic Studies: Ulaanbaatar, 1996), pg. 40.

³⁷ *Ibid.*, pg. 41.

³⁸ Stephen E. Noerper, "Of Horsemen and Hermits: Mongolia, North Korea and the New Security Architecture in Northeast Asia," *Olon Ulsin Xarilstaa, World Affairs*, Vol. 196 (6), 2002, no. 2 (Ulaanbaatar), pg. 108.

Events in the new millennium have illustrated that Mongolian calculations on the poor likelihood of North Korea producing a nuclear weapon were wrong.³⁹ North Korea's own declarations early this year on its nuclear bomb-making and breaking of its promises to the Clinton Administration, and the September 2004 revelations about South Korea's nuclear experiments prove that only Mongolia and Japan in Northeast Asia have no nuclear capabilities. Japan is well protected by the U.S. nuclear umbrella. Japanese previous ambivalent coexistence with the DPRK has been shocked by the revelations about Japanese kidnapped by the North in the 1970s, sinking of a North Korean spy boat, and firing of a test missile into Japanese waters. Japanese public attitude towards the North has been transformed into great distrust, which mirrors that of the Bush II Administration. Mongolia has offered to be a bridge between Washington and Pyongyang. However, since the Iraq invasion, the PRC, Russia, South Korea, and Japan have moved to engage the North in preliminary negotiations to avoid open confrontation with the U.S. To date these have not made much tangible progress. Mongolia also has its own problem as a facilitator for North Korean refugees fleeing to the South, which if not carefully handled could spiral out of control. All of these factors indicate that the continuing instability of the political situation on the Korean Peninsula is a large negative for Mongolian and Northeast Asian integration.

Growing dominance of the PRC in the Mongolian market—lackluster western investment

Although Mongolia from the very beginning of its democratic era in 1990 recognized that it must handle its economic relations with its southern neighbor very carefully to avoid domination of the domestic economy, it has not succeeded in managing this process. At best, it just has slowed down the pace of expansion. Mongolia adopted a Foreign Investment Law in 1990, which was revised significantly in later years. But, no revisions could overcome the country's landlocked status and high transportation costs which have inhibited foreign investment from western countries. Changes in mining legislation and customs and tax laws have encouraged U.S. and Canadian investors in minerals and oil, but even these investors see their market as PRC China (e.g. Ivanhoe Mining of Canada's new copper discovery in the Gobi is slated to go to the Chinese).

³⁹ Bold claimed "the North is still far from reaching a technological level to produce a so-called "nuclear bomb..." "A nation's efforts to conduct nuclear research, or its acquisition of nuclear power generating and reprocessing capabilities do not necessary [sic] indicate a [sic] intention to obtain nuclear bombs." *The Mongolia's Strategic View*, *ibid.*, pg. 27.

The PRC needs Mongolian resources such as copper, meat, and animal hair, and at the same time it offers Mongolia cheap consumer goods, fresh vegetables and fruits, and construction materials. There is no overcoming the fact that the PRC is well positioned to exploit the opening of Mongolia's economy to foreign investors. Chinese at first were kept out of the energy and mineral sectors, so joint ventures were established mainly in construction, restaurants, and retail sales. The low requirement for initial investment capital has made it easy for Chinese to register for small-scale joint ventures, and actually just buy raw materials to export them back home for value-added processing.⁴⁰ By 2001 the PRC had the largest number of joint ventures (687 officially registered) and was the largest investor with \$136.9 million, which represented 28.6% of total FDI. If Hong Kong's investments are added to the PRC, the total rises to about one-third.⁴¹

However, the average size of the investment is below the national average. As of 2001 there was no company among China's invested companies and joint ventures that had an investment of more than \$1 million. "The quality, profit results, and size of China's investment are low compared to trade turnover and potential of the two countries."⁴² By the end of the 1990s 88.9% of copper ore, 100% of unrefined oil, 98.9% of metal waste, 98-100% of leather and hides, and 98.6% of unprocessed wool went from Mongolia to the PRC.⁴³ Now there are 10 border trading points, and a full-scale proposal to develop a free trade zone at Zamin Uud. Although bids for the Zamin Uud Trade Development Zone went out last spring and a Chinese developer was chosen, it remains to be seen how the new coalition government will go forward. Mongolian authorities have now permitted Chinese exploration in the mineral sector, and some speculate that the mining industry will be the most successful industry for trade and cooperation between Mongolia and China.⁴⁴ All of these trends do not bode well for the independence of Mongolia's economy. Unless more effort and planning are put into diversifying the investment base and trade pattern, Mongolia in a decade could become an economic colony of the PRC, and endanger its national integrity.

⁴⁰ Batbayar, *Mongolia's Foreign Policy*, *ibid.*, pg. 143.

⁴¹ McKinley, *ibid.*, pg. 141.

⁴² D.Shurkhuu, "Mongol-Sino Economic Relations and Cooperation in the New Age of Globalization," *The Mongolian Journal of International Affairs*, No. 8-9 (Ulaanbaatar) 2002, pg. 85.

⁴³ N. Altantsetseg, "Russian-Mongolian and Sino-Mongolian Relations since nineties," *Geopolitical Relations*, *ibid.*, pg. 375.

⁴⁴ Shurkhuu, *ibid.*, pg. 83.

Donor policies

Mongolia is the fifth most donor-aid dependent country in the world. Official Development assistance (ODA) of nearly \$1.9 billion in the 1990s accounted for 24% of the GDP, and almost one-third of the national budget. With this amount of assistance, growth was expected to be rapid. Instead the growth of per capita income has been slow and in the second half of the 1990s the growth rate fell. Instead of contributing to faster growth, foreign aid has been a replacement for the Soviet aid of the socialist period, a substitute for taxation, a discouragement to savings, and mainly used to sustain consumption. Economic expert Terry McKinley, who did a UNDP-funded study, asserts that “The problem is that the very large inflows of foreign aid and modest inflows of private foreign investment have had a low return, measured in terms of their impact on the growth rate. Donors either are not aware of this or are complacent.”⁴⁵ Because large inflows of foreign aid push up the exchange rate, Mongolia’s goods are less competitive in world markets and locally produced products are less competitive than imported goods.

Added to the equation is Mongolia’s rise in foreign indebtedness, which eventually will provoke a debt crisis: Mongolia’s external debt as a ratio to GDP in 1997 was close to 60%, while the rate for 2001 was nearly 90%.⁴⁶ There is much evidence that donor assistance and lending policies during Mongolia’s democratic era have actually increased poverty. I myself have recently done an extensive analysis of foreign donor assistance to Mongolia’s rural sector, and the waste and failure if these policies are, unfortunately, significant.⁴⁷

Domestic politics—election crises

Mongolia since 1996 has been a rollercoaster of domestic political intrigue. No one, Mongol or foreign, predicted the huge election victory by the coalition of democratic parties in 1996, which ousted the ex-communist MPRP from power after 70 years. The next four years of Coalition Government were a major disappointment to the local populace and foreign friends, because the Coalition partners could not put aside their rivalries and greed to cooperate and govern. With 3 Prime Ministers and 9 months of no Prime Minister, there was

⁴⁵ McKinley, *ibid.*, pp. 145-6.

⁴⁶ *Ibid.*, pp. 142-143.

⁴⁷ Alicia Campi, “The Foreign Donor and NGO Community’s Policies toward Pastoral Nomadism in Mongolia in the Post-Socialist Era, at the Present State and Perspectives of Nomadism in a Globalizing World UNESCO-sponsored conference (Ulaanbaatar: August 2004).

parliamentary gridlock and the role of the President expanded to fill the vacuum. The full consequences of this latter development still are playing out. When the MPRP was decisively returned to power in 2000, scores were settled and corruption reached new heights. Power politics between the MPRP Prime Minister and President reflected the conflict over roles. The resulting bad feelings were played out again in the June 2004 election when the Prime Minister and MPRP for a time refused to accept the results of the election and considered finding a way to remove the President, who was upholding the integrity of the results. With a closely divided electorate reflected in the new Parliament, Mongolia is embarking on an unknown road called “coalition government” with all Mongol partners full of suspicion. The future, including any united policy towards Northeast Asia, seems full of problems.

Conclusion

In the 1990s Mongolian thinking about Northeast Asia expanded beyond strategic and political considerations to economic ties. Yet, hopes for large investment from a diverse group of Northeast Asian countries to counterbalance the influence of Mongolia’s two giant neighbors have only been partially realized. Mongolia had hoped that economic integration with other Northeast Asian nations would secure its sovereignty and economic development. The Asian financial crisis and the PRC’s unstoppable penetration of Mongolia’s economy have shaken the belief that political and security issues can be avoided.

Mongolian strategic thinkers do recognize that there is great diversity among Northeast Asian countries, and “there is no consensus on new mechanisms and processes which are needed as well as norms and principles which might be applicable for the subregion.”⁴⁸ They have called for innovative approaches to cooperation to deepen understanding through a multilateral security dialogue and realize economic cooperation.

Ambassador Bold saw economic relations among the open economies of Japan, South Korea, and the U.S., as crucial to the economic dynamism of the region and to prospects for deepening economic interdependence with the closed or formerly closed economies of Russia, the PRC, and North Korea. He also emphasized the value of a gradual approach via intensifying security dialogues to dissolve old identities and constructive new, more positive ones.⁴⁹

⁴⁸ Bold, *The Mongolia’s Strategic View*, *ibid.*, pg. 44.

⁴⁹ *Ibid.*, pg. 47.

Badral at the Mongolian Foreign Ministry is also realistic about the many obstacles to multilateral cooperation, noting that it is in Northeast Asia where there are residual legacies of the Cold War, but he doubts that bilateral security arrangements are sufficient and all inclusive.⁵⁰

Expansion of the Northeast Asian continental group of nations to include active and interested partners across the Pacific, the U.S. and Canada, has been a feature of Mongolia's democratic era, and in the main worked to Mongolia's advantage. However, such deepening ties carry a dangerous potential to pull the country into global politics and transnational problems, as exemplified by the War on Terrorism, Afghanistan and Iraq. At the same time, renewed military tension on the Korean peninsula has shaken up traditional Mongolian foreign policy strategic planning, and has left Mongolia as the lone nuclear-free player without a protective nuclear ally in the region.

Mongolia's dependence on foreign donor assistance has put its development and security future in the hands of Americans and Europeans to a degree which should be of concern to national leaders. Unfortunately, we have not seen any serious domestic discussion of the impact of donor aid on national policy. Mongolia's internal political experiment with democracy, while vibrant and always interesting, has produced much indecision and contributed to "donor fatigue." At this point, integration with Northeast Asia does not appear to be the solution to all of the country's many challenges, but Mongolia knows that it cannot escape the geography of the region and so still wants to be an active participant in deciding Northeast Asia's future.

⁵⁰ Badral, *ibid.*, pg. 20.